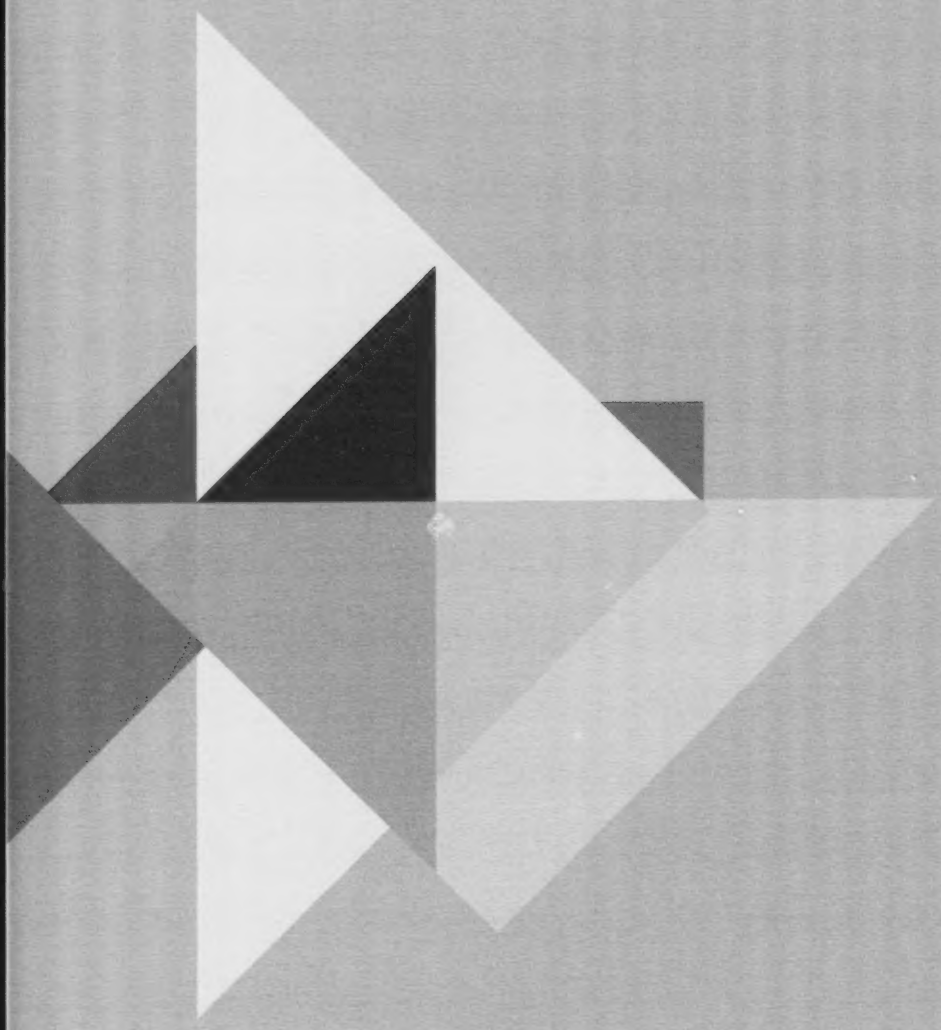
BRITISH COLUMBIA SECURITIES COMMISSION

2012-13 ANNUAL REPORT

InvestRIGHT
A program of the BC Securities Commission

British Columbia Securities Commission



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People

The success of the British Columbia Securities Commission depends on the skill of our professional staff to identify and resolve regulatory problems in the complex and fast-paced capital markets. The required expertise is constantly changing to meet the needs of a changing market. We work hard to attract and retain the specialized securities market expertise we need to fulfill our mandate.

BCSC staff are actively engaged in their communities. A number of our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. This report details their achievements and dedication to making the BCSC a leading securities regulator in Canada.

Message from the Chair

Brenda M. Leong

Capital Markets

Understanding the markets we regulate is critical to being an effective regulator. That is why we are increasingly engaging with market participants directly through consultation and indirectly through research, surveys, and other sources. We continue to strengthen our capacity to better understand both the public and private markets—the sectors that comprise them, their channels for financing, the products sold, and the risks they may present to investors.

There are about 1,700 public companies based in British Columbia. Over 1,100 are listed on the TSX Venture Exchange (TSX-V), comprising 50% of listed companies and 41% of market capitalization. Most are junior mining companies, followed by technology, oil & gas, and diversified industries. The vast majority are small to medium-sized businesses that conduct relatively small financings—under $10 million. These companies rely largely on smaller independent dealers to support their financing needs.

About 200 BC-based companies are on the senior board of the Toronto Stock Exchange (TSX), the majority of which are mining. These companies have a combined market capitalization of $190 billion compared to the TSX-V companies, which have a combined market capitalization of $17 billion.

Canadian stock exchanges, populated heavily by resource companies, experienced a significant downturn in 2011 into 2012. In 2012, BC companies raised over $8.1 billion in the public markets, rebounding to 2010 levels after dropping to $3.8 billion in 2011. Times remain challenging however. In 2013, total equity financings on the TSX-V were down 37% through the first three months of the year from the same period last year.

Increased regulation is often cited as a contributing factor to costs. While regulation is often necessary to protect investors and the integrity of the markets, we always have to consider the regulatory impacts of new regulation and, at the same time, look for opportunities to reduce regulatory burden. At the BCSC, we continue to do that through our consultations with market participants and by exploring opportunities to streamline financing and reduce regulatory costs.

Private Placement (Exempt) Market

With a greater focus on the private market, we know that in recent years the amount of money raised in the private placement market has exceeded that in the public market. Given this seeming trend, we have strengthened our oversight of this market by refocusing resources and investing in technology to support our oversight activities. We will continue to monitor the risks inherent in the private placement market.

In 2012, BC companies raised $12 billion in the private placement markets. Some sectors have done well in these tight markets, while others have done poorly.

Of note are investments in real estate-based transactions. Between 2010 and 2012, the amount raised by mortgage investment companies increased by 89% and real estate companies by 440% ($304 million in 2010 to $1.6 billion in 2012.). Technology companies dropped 8% from 2010 to 2011, but then rebounded by 24% the next year.

In contrast, the amount of monies raised by mining companies dropped by 74% over the same two-year period. Smaller dealers have experienced a tough year seeing their operating profits largely disappear.

It is not surprising that companies, dealers, and others are speaking out about the liquidity gaps and other challenges they are facing in raising capital. Given the importance of our venture markets to a vibrant economy, we are reaching out to small and medium-sized businesses and their advisors, and working alongside the TSX-V to discuss these financing challenges and to explore opportunities to foster competitive markets.

CSA and the Common Regulator

This past year was another challenging one for the Canadian Securities Administrators (CSA), with some provinces supporting the concept of a common regulator, and others not.

In the March 2013 federal government's budget, Minister Flaherty announced his intention to continue to pursue a common regulator. He also extended the mandate of the Canadian Securities Transition Office. The Minister stated that the preferred approach of his government is to reach a cooperative agreement with willing provinces.

The Minister set out the following criteria for a common regulator: administering a single set of rules; ensuring that it is operationally independent and self funded through a simplified set of fees; having one board of directors with broad capital markets-related experience; and preserving the elements of the current system that work well, such as maintaining offices in each participating jurisdiction with the capacity to service market participants locally.

The Minister also noted that he wants a timely agreement. If such an agreement does not occur, the federal government has said that it would introduce legislation that is consistent with the decision made by the Supreme Court of Canada in December 2011. In the decision, the Court said that the federal government had a role in overseeing issues of national importance, most notably responding to systemic risks, such as those posed by over-the-counter derivatives.

The Council of Ministers, which includes all provinces except Ontario, recently stated, "It believes the federal government has a role to play in securities regulation—but not the same role allocated to provinces in the day-to-day regulation of securities in Canada." It said, "The Council is prepared to work with the federal government to improve how securities regulation operates in Canada while respecting provincial jurisdiction." We will continue to advise our government on this initiative in the coming year.

Despite the uncertainty, we remained committed to our priorities and delivered on our mandate to protect investors and foster fair and efficient markets. We worked diligently to meet our Service Plan commitments. We met or exceeded all of our performance measurement targets, except for two (measurements 1.2 and 2.2). This year we focused on three risks: illegal distributions and fraud; non-compliance in the private placement market; and market misconduct associated with offshore secrecy jurisdictions.

While we continue to operate under some uncertainty, the BCSC through its active participation with the CSA is committed to improving the securities regulatory system in Canada. We have recently added project management capabilities to the CSA Secretariat to improve the timeliness of regulatory policy-making and are looking at additional opportunities to enhance the Passport System.

In addition, the CSA has entered into a new services agreement with CGI Information Systems and Management Consultants Inc. (CGI), who will take over the hosting, operation, and maintenance of the CSA's National Filing Systems – SEDAR, SEDI, and NRD. We expect the new arrangements with CGI to decrease the operating costs of these national systems and provide opportunities to pass along savings to market participants.

The Maple Transaction

In July, the Maple Group, a group of large financial institutions and pension funds, largely based in central Canada, acquired the TMX Group, Alpha Exchange, and CDS. In the BCSC's view, the Maple transaction presented risks to the health and future of the venture market, which is vital to the BC and Canadian economies. In approving the transaction, and to manage these risks, we imposed conditions that would support a continued strong presence and voice for venture companies in BC and western Canada.

Investor Protection

Fraud Proofing Investors

Our *Be Fraud Aware* campaign, now entering its third year, is the first comprehensive investor education campaign of its kind, using traditional and social media and reaching BC communities in multiple languages. We received international acclaim for the multi-lingual campaign with a Gold Quill Award of Excellence from the International Association of Business Communicators. IABC further recognized the campaign as being "Best of the Best" for Communications Management, one of only five such awards given.

A recent survey told us that the English, Chinese, and Punjabi communities are increasingly aware of the signs of affinity fraud, with awareness particularly strong in the Punjabi community. Of particular importance is the increase in favourable impression of the BCSC, which increased by 14% in the general population and 21% in the Chinese community. Notably, it has increased 19% in the very favourable response category in the Punjabi community.

This year we received twice as many calls to our inquiries unit as last year; 31 were referred to enforcement and 10 cases were opened. There were over 16,500 views of our YouTube videos this year; and over 1,500 downloads of our *Be Fraud Aware* app, the first of its kind in Canada.

Enforcement Activity

In what has been a busy year, the volume of cases remained high in both the administrative and criminal side. Since we formed a criminal enforcement team, Crown Counsel has laid 346 charges in connection with 26 cases; 24 people have been formally charged and 10 people convicted. In the ensuing years, we have seen a substantial number of cases opened and individuals charged.

Three of the five *Investor Alerts* issued this fiscal year related to online investment promotions offering high daily (2% to 5%) or yearly (up to 100%) returns. There were also two Commission decisions that found attempted fraud in promotions on Craigslist. The Commission will continue to use all tools at its disposal to combat online investment fraud.

Compliance Outreach

Our Capital Markets Division's ongoing work to reach out to firms through our Registrant Outreach Program resulted in the BCSC receiving the highest marks in the 2013 regulators' report card by *Investment Executive*. We host outreach workshops quarterly, covering various topics of interest to registrants, with a view to helping firms improve their compliance.

Mining Report

The BCSC has primary jurisdiction and oversight responsibility for almost 1,200 mining companies that are reporting in BC. This number includes mining companies that trade on Canadian markets, as well as BC companies quoted on OTC markets in the United States. As of December 31, 2012, 948 BC mining companies were listed on the TSX and TSX-V representing about 70% of all BC companies and 57% of all Canadian mining companies listed on these exchanges. In 2012, these companies raised $1.9 billion through public offerings and a further $3.5 billion in the private placement market.

Given the significance of the mining industry to BC's capital markets, we work hard to help ensure the markets have integrity so investors have confidence investing in resource companies. That work led to the release of the first Mining Report in 2012, which describes BCSC's disclosure review processes aimed at improving information provided to investors, and highlights important findings for industry and its advisers.

Financial Picture at Year-End

Almost all of our operational funding is from fees paid by securities market participants. Our fee model generates revenues that generally grow proportionally with long-term market growth, providing us with sufficient resources to regulate increased market activity. Fee revenues fluctuate with market movements so we keep a fee stabilization reserve, currently equal to about four months of expenses, to provide a funding cushion during protracted periods of market weakness.

We generated a $1.1 million deficit for fiscal 2013. Revenues were $1.9 million (5%) below expectations, due primarily to lower capital-raising activity and lower than expected growth in registrations by dealers. Expenses were $0.1 million (2%) below budget, but increased $2.3 million (6%) from the prior year, related primarily to additional staff resources and increased spending for our *Be Fraud Aware* investor education awareness campaign. Increased staffing bolstered enforcement and compliance capacity and advanced key technology initiatives to support those activities.

Our People

Our strength is our people. We encourage cooperation and teamwork across the commission to reach a common goal—protecting investors and our capital markets. Our staff are innovative, dedicated, and professional. I want to thank all of them and recognize their hard work this past year. Many staff have said they are honoured to work at the BCSC. I echo that sentiment. We tackled some difficult issues this year and there are undoubtedly more to come. But we rise to these challenges in order to play a leading role in securities regulation.

Finally, I would like to express my sincere appreciation to the BCSC commissioners for their continuing support of the BCSC and the important work we do. They committed significant time this past year to our administrative tribunal function, provided valuable advice on the Maple transaction, and guided our many regulatory policy decisions.

In particular, I want to recognize and pay tribute to the valued contribution made by Mr. David Smith, who passed away in August 2012. David served as a BCSC commissioner from 2006 through 2012.

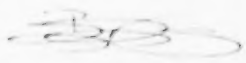
Statement of Accountability

The 2012/13 Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the BCSC for the 12 months ending March 31, 2013 in relation to the Service Plan published in February 2012.

I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion. The measures presented are consistent with the BCSC's mandate, goals, and strategies, and focus on aspects critical to the organization's performance.

The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate directions, goals, strategies, measures, or targets made since the 2012/13 – 2014/15 Service Plan was released, and any significant limitations in the reliability of data, are identified in this Annual Report. In preparing this report, we have considered all significant assumptions, policy decisions, events, and identified risks, as of May 30, 2013.



BRENDA M. LEONG,
Chair and Chief Executive Officer

Organizational Overview

BCSC vision

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

Mission

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering

- a securities market that is fair and warrants public confidence
- a dynamic and competitive securities industry that provides investment opportunities and access to capital

Values

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

Overall Benefit

The Commission benefits the public by protecting investors and the integrity of BC's capital markets. We

- review the disclosure that businesses raising capital must provide to investors
- review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds, to ensure they are qualified, ethical, and solvent
- take action against those who contravene securities laws
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

Enabling Legislation

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

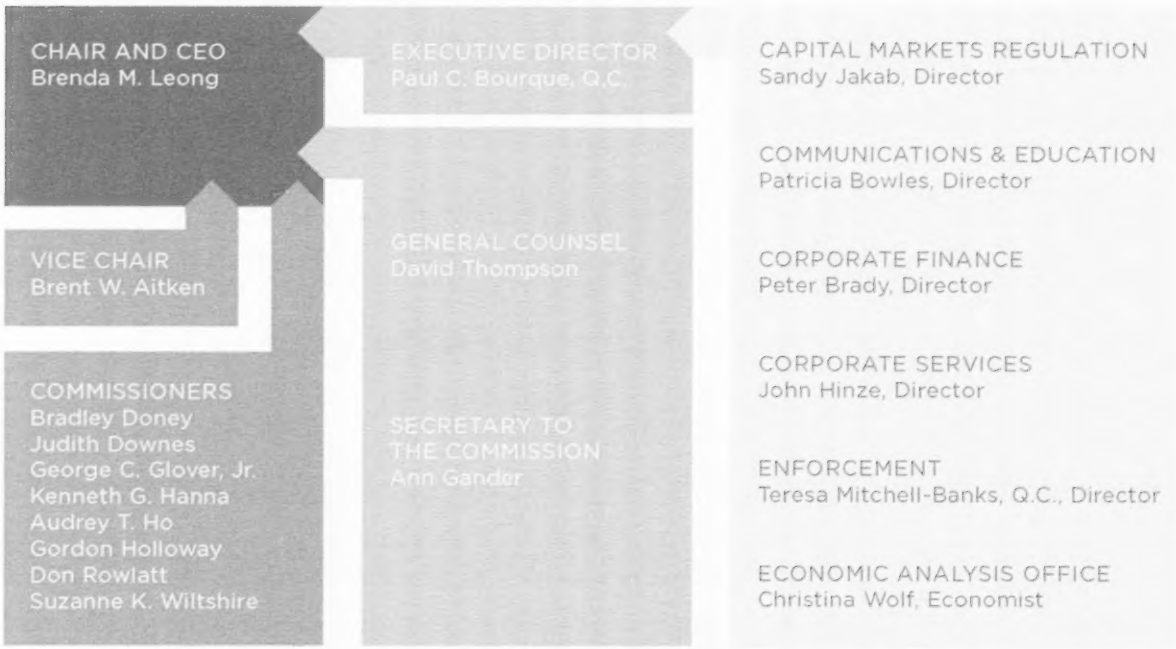
We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit this Annual Report and audited financial statements. We submit our three-year Service Plan to the provincial Ministry of Finance and Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Government's Letter of Expectations

The provincial government sets out the following specific expectations of the BCSC in the Government's Letter of Expectations. Our progress in meeting those expectations is noted below.

Expectations	Progress
Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments.	The BCSC provided advice and expertise to the provincial government relating to the National Regulator Initiative.
Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework.	The BCSC worked cooperatively with the CSA on various regulatory initiatives, including those related to Canada's G20 commitments.
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	The BCSC is actively participating in the national initiative to develop a harmonized framework to regulate OTC derivatives.
Comply with Government's requirements to be carbon neutral under *Greenhouse Gas Reduction Targets Act*.	BCSC remained carbon neutral in fiscal 2013.

Current Organizational Structure



Governance

A board of up to 11 (currently 10) commissioners appointed under the *Securities Act* governs the BCSC. The commissioners have four categories of responsibilities. They

- review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- oversee, with staff, the self-regulatory organizations (SROs), exchanges, and other marketplaces
- act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Board Committees

Independent commissioners are also members of one or more of the three board committees described in the table below:

Committee	Members	Role
Audit	Suzanne K. Wiltshire, Chair George C. Glover, Jr. Don Rowlatt	The Audit Committee assists the board in • overseeing the integrity of the BCSC's financial management and reporting systems • overseeing the effectiveness of the BCSC's internal controls • ensuring the independence of the BCSC's internal and external auditors • monitoring risk management policies and systems
Human Resources	Don Rowlatt, Chair Bradley Doney Judith Downes Suzanne K. Wiltshire	The Human Resources Committee assists the board in • ensuring the BCSC has an effective organizational structure and competitive human resources and compensation policies and practices • ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management • evaluating and determining compensation for the chair
Governance	Kenneth G. Hanna, Chair George C. Glover, Jr. Audrey T. Ho	The Governance Committee assists the board in • ensuring the BCSC has policies and practices for good governance and ethical conduct • ensuring the board and its committees function independently • evaluating board performance • evaluating commissioners and planning for their succession

Governance Principles

Recruitment — The provincial government appoints the commissioners for a term of office specified under the *Administrative Tribunals Act*. Every commissioner has skills and experience in business, capital markets, law, or regulation; a reputation for honesty, integrity, and dependability; and an appropriate level of knowledge of securities law and industry practice to fulfill the role as a member of an expert tribunal.

Orientation — The board has a comprehensive orientation program for new commissioners. The orientation program familiarizes new commissioners with the mandate and operations of the BCSC, the role of the board and its committees, and the relationship and division of responsibilities between the board and government.

Continuous governance improvements — The Governance Committee and the Human Resources Committee develop, recommend to the board, and oversee processes for the evaluation of the board, its committees, the commissioners, and the chair.

Independence — An independent commissioner must have no direct or indirect association with the commission that, in the view of the board, could be reasonably expected to interfere with the exercise of the commissioner's independent judgment. Every commissioner must develop and maintain an independent perspective, and must discharge quasi-judicial responsibilities fairly, expeditiously, and in the public interest.

Governance Best Practices Disclosure

Except where noted in the BCSC's governance policy, the board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, The Board Resourcing and Development Office of the Premier).

The governance policy requires that we disclose the following information about the BCSC in the annual report:
Commissioner compensation and attendance records — see page 43 in the Financial Report for the attendance records and compensation of each commissioner.

Compensation consultants — see page 43 in the Financial Report for information on the consultants retained this year.

Compliance with governance policy and procedures — there were no material deviations from the governance policy this year.

Our governance policy is on the BCSC website at www.bcsc.bc.ca *(About the Commission / Governance / Governance Policy)*. A biography of each commissioner is available on the BCSC website *(About the Commission / Governance)*.

Key Stakeholders

- *The public* — which relies on us to foster capital markets that contribute to the well being of BC
- *Investors* — who seek to invest in fair and efficient securities markets
- *Issuers* — companies that rely on the capital markets to fund growth
- *Securities firms* — which advise investors and companies, and facilitate trades
- *Marketplaces* — which facilitate trades
- *Other regulators* — with which we enforce compliance, and develop and implement policy initiatives through the CSA
- *The provincial government* — to which we are accountable

The Securities Regulation Landscape

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating BC capital markets in the context of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy and practice in BC.

We work within a regulatory passport system, through which a market participant has access to markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized laws. All Canadian jurisdictions, except Ontario, participate in the passport system. While Ontario-based market participants benefit from the passport system, market participants based outside of Ontario need to deal with both their principal regulator and the Ontario Securities Commission (OSC).

We rely on the following SROs to regulate dealers and trading activity in Canadian securities and exchange contract markets:

- The Investment Industry Regulatory Organization of Canada (IIROC) regulates investment dealers and trading activity on Canadian debt and equity marketplaces, including the TSX, TSX-V, and alternative trading systems
- The Mutual Fund Dealers Association (MFDA) regulates mutual fund dealers.

The BCSC leads regulatory oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. This year we led the first ever risk-based CSA oversight review of the MFDA. The OSC leads regulatory oversight for IIROC.

The BCSC recognizes the TSX-V under the *Securities Act* and shares responsibility with the Alberta Securities Commission (ASC) for its oversight. The BCSC exempts the TSX, Alpha Exchange, and the Canadian National Stock Exchange from recognition, and we rely on the OSC's oversight of these exchanges.

The BCSC recognizes CDS Clearing and Depository Services Inc. and Canadian Derivatives Clearing Corporation. These agencies clear exchange-listed securities and derivatives.

The BCSC also recognizes the Canadian Public Accountability Board, which oversees auditors who audit public companies in Canada.

Corporate Finance and Capital Markets Statistics

Fiscal year	2009	2010	2011	2012	2013
Registrants[1]	30,344	31,553	32,979	32,407	32,581
New firm registrations	7	5	15	14	4
New individual registrations[2]	N/A	N/A	N/A	N/A	2,699[3]
Dealer firm examinations	6	4	0	3	14[4]
Adviser firm examinations	14	14	34	28	20[5]
Active public companies	6,960	7,212	7,213	7,621	7,638
Mutual fund prospectus filings	2,906	2,832	3,063	3,150	3,587
Prospectus filings (non-mutual fund)	515	828	1,045	1,084	588[6]
BC PR prospectus filings[7]	129	161	160	160	149
Initial public offerings receipted[8]	214	184	308	326	211
Continuous disclosure reviews	279	341	298	325	354
Annual information forms (AIFs)	1,416	1,374	1,838	1,907	1,661[9]
Cease trading orders (public companies)	361	437	334	296	243
Exemption applications[10]	N/A	N/A	N/A	112[11]	85

1. Registration figures are drawn from the NRD and include all firms and individuals registered in BC.

2. We revised this measurement methodology in fiscal 2013. Therefore, we have not included measurements for prior years because they are not comparable.

3. In fiscal 2012 and previously, all individual registration applications we received were included in this measure, whether or not the applicant was based in BC. Staff do very little work on non-BC based applications. As a result, starting in fiscal 2013, we are counting the BC-only new individual applications for registration.

4. The number of dealer firm reviews includes 14 compliance reviews of registered firms. We also conducted a special project that involved 57 reviews of unregistered dealers and finders in the private placement market. The Securities Act was amended effective November 2011 to provide the Commission with a new power to examine unregistered dealers and other market participants.

5. In fiscal 2013, we examined 20 adviser firms, which is 7% below 21.4, the average annual number of advisor examinations. This is because the adviser compliance team assisted the dealer compliance team by conducting 16 inspections of unregistered dealers and finders in the private placement market.

6. This figure represents all prospectus filings in BC, including those for which we are not the principal regulator. Prospectus filings for which we were not the principal regulator dropped more than those where we were the principal regulator.

7. BC PR prospectus filings includes all prospectuses (mutual fund and non-mutual fund) for which the BCSC is the principal regulator. In most cases, these are prospectuses filed by BC-based companies. This figure is a subset of the figures shown for "Mutual fund prospectus filings" contained with "Prospectus filings (non-mutual fund)".

8. Initial public offerings (IPOs) are a subset of all prospectus filings.

9. The decrease in AIF filings was due to a decrease in venture companies that chose to file an AIF. These filings are voluntary for venture companies and we believe the reduction is due to fewer venture companies seeking to conduct a short-form prospectus offering.

10. We revised this measurement methodology in fiscal 2012. Therefore, we have not included measurements for prior years, because they are not comparable.

11. In fiscal 2011 and previously, all applications we received were included in this measure, even if we were not the principal regulator. The benefit of measuring routine applications where we are not the principal regulator did not justify the time required. As a result, starting in fiscal 2012, we no longer counted these routine applications.

Core Business Areas

We oversee BC's capital markets from our office at 1200-701 West Georgia Street, Vancouver, BC through work in four core business areas.

Compliance

Our Capital Markets Regulation division is working on real estate-based private placements (Strategy 1.1) and offshore secrecy jurisdictions (Strategy 2.3), initiatives to address strategic priorities. This division's core work includes registration, compliance reviews of registrants, and SROs, exchange, and clearing agency oversight.

Our Capital Markets Regulation division screens securities firms and their advisers when they apply for registration (except IIROC firms and their advisers, who register with IIROC) and refuses applications from unsuitable candidates or imposes conditions to mitigate risks that candidates may present and that standard securities regulatory requirements do not cover.

We review these securities firms on an on-going basis for compliance with the rules. Better investor protection results when securities firms and advisers understand and comply with the rules. We achieve this, in part, by ensuring these organizations have effective compliance systems and controls in place.

In fiscal 2013, BCSC staff held three registrant outreach workshops, reaching over 310 individuals in our directly regulated community, in person or by webcast. Among other things, these workshops focused on common compliance deficiencies, compliance best practices, and social media in a registrant's business.

We rely on the SROs to regulate their member firms. We oversee the SROs and directly regulate firms that are not members of an SRO.

In addition to working on real estate-based private placements (Strategy 1.1), automated monitoring of internet, social media sites and spam (Strategy 2.1), and venture issuer regulation (Strategy 4.2), our Corporate Finance division reviews prospectus filings that companies make when they go public or when they are already public. The prospectus is one of the key disclosure documents used by companies to raise money from the public. We also monitor continuous disclosure documents by public companies to determine whether adequate disclosure is being provided. Investors are better able to make informed investment decisions when they have access to adequate ongoing disclosure.

As part of our prospectus and continuous disclosure review programs, we review technical disclosure of public mining companies. For example, we perform pre-filing technical reviews for companies contemplating filing a short form prospectus. This year we published our 2012 Mining Report, the first of its kind. The report discusses the most common findings of regulatory reviews and outlines areas where market participants can improve their disclosure.

In fiscal 2013, our mining team completed 212 mining technical disclosure reviews. Of the companies reviewed,

- *42% issued a clarifying news release*
- *36% were put on the defaulting issuers list*
- *31% filed new or amended technical reports*

We monitor filings on a daily basis by companies in the private placement market to gather information on these companies and identify those with higher risk. This allows us to focus our resources on the higher-risk companies.

We also monitor daily trading of companies quoted on the OTC Bulletin Board that file with the BCSC. We flag unusual trading activity and request further information.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, quick and thorough investigation, and vigorous prosecution of alleged misconduct. We resolve cases through settlements and by administrative proceedings and criminal prosecutions.

In addition to working on offshore secrecy jurisdictions (Strategy 2.3), our Enforcement division focuses on

- illegal distributions (including misrepresentations and fraud)
- market misconduct (including market manipulation and insider trading)
- compliance cases (including non-compliance by dealers and companies) with a strong BC connection
- criminal cases that relate to securities transactions

When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO member misconduct.

In Canada, we cooperate and coordinate with other Canadian regulators, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow to strengthen investor protection, not just in BC but across Canada.

We regularly cooperate and coordinate with US federal and state regulators, as well as other foreign regulators in enforcement matters. We are active in the following international regulatory organizations:

- *International Organization of Securities Commissions (IOSCO)* — the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators
- *North American Securities Administrators Association* — an organization of Canadian provincial, US state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas* — a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean

In fiscal 2013, a BCSC panel found Bahamas-based Gibraltar Global Securities Inc. unsuitable to engage in securities regulated activities in BC and permanently banned Gibraltar from BC's capital markets. (See further discussion of Gibraltar on page 68 in the Enforcement Report.)

In addition, we have formal bilateral memoranda of understanding (MOUs) with foreign regulators, and a multilateral MOU with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for regulatory oversight and investigations.

The Enforcement Report, which begins on page 62, provides a detailed summary of our enforcement activity and initiatives in fiscal 2013.

Investor education

Our goal is to educate investors so they can make informed investment decisions and protect themselves from fraudulent investment schemes. Research shows that many investors lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops targeted programs for various groups from high school students to seniors.

A major focus this year was the *Be Fraud Aware* campaign (see Strategy 3.1).

In addition to that campaign, teaching financial life skills and raising awareness about their importance is a priority for the BCSC. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life. We give presentations and workshops to teachers and student teachers to help them deliver the finances portion of *Planning 10*, a required course for Grade 10 students in BC.

In the past year, BCSC staff trained over 220 student teachers and over 40 teachers to teach financial life skills to BC high school students. We also presented our new SaveSMART program to 100 teachers and student teachers.

Our adult education programs target retirees and pre-retirees—two groups we know to be particularly vulnerable to investment fraud. When they fall victim to a fraud, the financial impact can be life altering because they have less time than younger investors to recover from financial losses. Through our consumer website, *InvestRight.org*,

we offer tools and information to help investors avoid and report investment fraud, and to help them understand risk and the basics of making informed investment choices. In addition, BCSC staff conduct province-wide outreach seminars to engage ethnic communities and seniors groups.

In fiscal 2013, BCSC staff presented 43 InvestRight seminars to over 2,650 people in communities across the province. We also participated in 11 trade shows and seniors forums reaching over 1,650 attendees.

Policy-making

We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand these rules. We use these tools when regulatory intervention into the market is justified and other tools are not sufficient to address the reason for the intervention.

In July 2012, all CSA jurisdictions, except Ontario, adopted a rule regulating issuers quoted on the US OTC markets. The rule maintains the key features of the BC OTC rule adopted in 2008 and reflects our four years of experience with the BC OTC rule. BCSC staff led the initiative to enhance the existing BC OTC rule for use in other Canadian jurisdictions.

As part of our policy-making work, we actively consult with market participants. During the past year, we consulted with BC market participants on the Maple transaction, proposed derivatives regulation, and mining disclosure.

We consulted with dealers and with TSX-V issuers and their advisors to understand the impact of the Maple transaction on these critical public venture market participants. The information we gathered from these consultations helped shape the BCSC's recognition orders and new oversight regimes for the TSX-V and CDS.

In fiscal 2013, we also consulted with derivatives market participants in two ways. First, staff conducted a survey of key derivatives market participants in BC. This survey provided staff with an overview of the market in BC and allowed us to identify elements of the derivatives market that are important to BC market participants. Second, BCSC staff, in coordination with ASC staff, organized a derivatives participant roundtable to discuss a proposed model rule relating to trade reporting. The purpose of the round table was to elicit information regarding the impact of the proposed rule and to encourage industry comment.

This year we consulted the Mining Technical Advisory and Monitoring Committee (MTAMC) on several topical issues, including the reporting of taxes in economic analyses, the use of non-standard mineral resource methodologies, and aggressive metal pricing assumptions. CSA established MTAMC in 2001 to advise CSA staff on industry developments and issues relating to the application and interpretation of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (the national mining rule). MTAMC is co-chaired by the BCSC and OSC and meets informally two or three times per year. Its members have broad and diverse industry expertise and industry perspectives.

BCSC Operating Environment and Capacity

Capital markets are increasingly complex, posing significant challenges for securities regulators in Canada and internationally. The 2008 global financial crisis revealed the interdependence of securities markets with the broader financial markets, and heightened awareness of systemic risks.

We manage our operations to ensure we have the appropriate resources and capital market expertise to meet these market challenges. We focus our efforts using a risk-based approach, paying more attention to high-risk firms, companies, and individuals. We allocate resources and manage operations in the following ways:

- strategic planning and a comprehensive risk management framework
- a rigorous annual budgeting process and monthly budget variance reporting
- strong project management and purchasing controls
- succession planning and recruiting to maintain key competencies
- ongoing professional development to meet evolving market developments

We allocated resources to the following two national initiatives last year and will continue to do so over the coming year:

- *Upgrading CSA filing systems* — The CSA rebid the contract for hosting SEDAR, SEDI, and NRD and selected a new service provider. CSA entered into a service agreement with CGI in April 2013 to host, operate, and maintain these national filing systems. With a new systems host now in place, CSA plans to issue, in summer 2013, a Request for Proposal for the redesign of these systems over the coming years.
- *Regulating OTC derivatives* — The CSA continued its long-term project to regulate OTC derivatives. This supports Canada's G20 financial regulatory commitments.

This year, the BCSC committed significant additional resources to three areas necessary to enhance our regulatory capabilities:

- expansion of private placement market intelligence
- enhancement of risk-based approaches to our regulatory operations
- upgrading our IT capabilities, including implementing a new Enforcement Case Management system during the year

Funding

We have not increased fee rates in more than 18 years. Revenue changes reflect market activity. Expenses increased at an average annual rate of 3.4% for the 10 years ended March 31, 2013.

(millions) Fiscal year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast
Revenues	$31.4	$34.9	$36.9	$37.4	$41.2
Expenses	$30.8	$31.2	$36.2	$38.5	$41.0
Surplus (Deficit)	$0.6	$3.7	$0.6	($1.1)	$0.2
Capital additions	$0.3	$0.6	$2.2	$4.2	$7.6

Revenues increased 1% in fiscal 2013, $1.9 million (5%) below budget. The shortfall was due to lower than expected capital-raising activity, lower than expected new registration activity, and the timing of financial filings.

Expenses increased 6% in fiscal 2013, modestly below budget. Salaries, benefits, and occupancy costs account for about 80% of expenses. We increased expenses to expand organizational capacity and advance several key initiatives.

We are financially sound, ending the year with an accumulated surplus and projecting break-even or better consolidated results over the coming years.

Report on Performance

This section describes each goal, the strategies supporting it, and the measurable progress we made during fiscal 2013 towards achieving the goals. We also identified three risks in our 2012 Service Plan that present a threat to our mission. Some of the strategies were a direct response to those risks.

Our mission is to protect and promote the public interest by fostering

- *a securities market that is fair and warrants public confidence*
- *a dynamic and competitive securities industry that provides investment opportunities and access to capital*

Strategic Risks

The BCSC has a risk management process to identify and rate strategic risks to our mandate. Those risks assessed as most threatening receive broad management attention. Our top risks have mitigation strategies described in this report.

In the 2012 Service Plan, we identified three risks that posed the most significant threats to investor protection and market integrity.

Risk 1

Illegal distributions and fraud

Public and private companies raising capital from the public must follow rules that preserve investor protection while fostering an efficient market for capital-raising for small and medium-sized businesses. When businesses raise capital without following these rules (called an illegal distribution), investors lose the protection created by the rules. Illegal distributions are sometimes designed to intentionally defraud investors.

We view illegal distributions and fraud as a key risk to the BC public because

- investors often lose their entire investment
- there is little chance of recovering any part of the investment because there is no recourse to a registrant, and the investor's money is spent or moved offshore.

See Strategy 3.1 for steps we have taken, and will be taking, to address this risk.

Risk 2

Non-compliance in the private placement market

Private placement securities are securities issued in Canada that do not require a prospectus. The private placement market is used by a wide variety of BC businesses—from start-up venture capital companies to established companies. The private placement market is extremely important to businesses raising capital. It is where companies raise their start-up capital until they are ready to go public. Even after going public, listed companies, especially those in the junior market, continue to rely on the private placement market to raise capital.

Companies may only solicit money in the private placement market from investors who do not require all of the consumer protection aspects of securities legislation because they

- are more able than members of the public to withstand loss
- are closely connected to the company or its directors or officers
- have received alternate disclosure provided at the time of the investment, together with risk disclosures

Because many start-up companies fail, this part of the private placement market is inherently risky. There are few disclosure requirements for securities sold in this market and investors cannot easily sell their securities. The challenge for the regulator is to ensure market integrity for the thousands of businesses and investors who participate in this market. See Strategy 2.2 for steps we have taken, and will be taking, to address this risk.

Risk 3

Market misconduct associated with offshore secrecy jurisdictions

The integrity of British Columbia markets is damaged when people trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct using accounts in offshore secrecy jurisdictions.

We have addressed this issue by taking enforcement action, but that, by itself, is not sufficient to fully address the risk. One difficulty is that foreign banking and secrecy laws frustrate our investigations into suspicious activity associated with offshore accounts. See Strategy 2.3 for additional steps we have taken, and will be taking, to address this risk.

Measurements

This section describes the performance measurements by which we track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time.

We select measurements based on the following criteria:

- *Connection to our goals* — We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity* — We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability* — We choose measurements for which we can collect accurate data and establish baselines in a timely way.

We critically evaluate our measurements yearly, to ensure they have integrity, and are meaningful. Accordingly, this may result in reconsidering the measure or the data collection method. Management reviews data for accuracy, including investigating any unusual results.

We set targets for each measure based on a target's ability to reflect a compliant market, hold BCSC staff accountable for stretch goals, and improve on current results. In fiscal 2013, we achieved 80% of our measurement targets.

For a detailed review of our data sources, collection method and frequency, and controls, refer to pages 39–42 in the 2013/14–2015/16 Service Plan available on the BCSC website (*About the Commission*).

Benchmarks

Currently, these measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers. However, certain other Canadian securities regulators are looking to develop public key performance measures. We will continue to monitor these developments and look for opportunities to benchmark.

Goal 1 — Promote a culture of compliance

Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

Strategy 1.1 / Review the regulatory environment for real estate-based private placement products

Real estate securities are securities with real estate underlying the investment. They are structured in a variety of ways. Both securities and mortgage regulators regulate the sale of these securities.

During fiscal 2013, we put together a plan to determine

- the volume and value of real estate securities sold by BC companies to investors inside and outside BC
- the extent to which dealers, registered or unregistered, are selling real estate securities
- how much capital was raised through investors buying debt and how much through equity purchases
- which kinds of securities are most frequently used to raise capital

The plan lays the necessary groundwork for us to review the sector for investor protection concerns in the coming year.

Measurements

Measurement 1.1 / Percentage of reviewed companies that reduce deficiencies in their continuous disclosure

Our Corporate Finance division reviews company disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of companies that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant companies to improve their disclosure.

Status: Met	Results and targets						
Fiscal	2011 Actual[1]	2012 Actual[2]	2013 Target	2013 Actual[4]	2014 Target	2015 Target	2016 Target
PERCENTAGE OF REVIEWED COMPANIES THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE							
(a) Improved disclosure subsequent to continuous disclosure review	97.1%	100%	> 95%	100%	> 95%	> 95%	> 95%
(b) Improved disclosure to minimum standards	94.1%	100%	Set new baseline to reflect IFRS transition[3]	100%	> 95%[5]	> 95%[5]	> 95%[5]

1. *33 of 34 (97.1%) companies reviewed in fiscal 2011 improved their disclosure in some areas; 32 (94.1%) improved to meet the basic standard for compliance. One company did not show any improvement in its disclosure and remained cease traded.*
2. *All 25 companies reviewed in fiscal 2012 improved their disclosure in some areas to meet the basic standard for compliance.*
3. *Canada adopted International Financial Reporting Standards (IFRS) on January 1, 2011, which changes the minimum standards. It has taken two fiscal years for the baseline to reset.*
4. *All 26 companies reviewed in fiscal 2013 improved their disclosure in some areas to meet the basic standard for compliance.*
5. *The target for measurement (b) for fiscal years 2014 through 2016 was to improve year-over-year. Since we achieved 100% compliance in fiscal 2013, further improvement is not possible. We have set the forward targets at greater than 95%.*

Notes on measurement: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate the year-over-year improvement. Overall, we set targets that are practically achievable and reflect compliant behaviour by companies. The 95% target in measurement (a) reflects that only one in 20 companies we reviewed did not improve their disclosure after our review. For measurement (b), we intended to set the new baseline this year to reflect to transition to IFRS. However, since 100% of companies achieved minimum standards, we have set the same >95% target here as in measurement (a), as expecting 100% of companies to improve every year is not realistic.

Measurement 1.2 / The degree to which randomly sampled mining companies comply with standards for technical disclosure

Over 50% of Canadian mining companies are based in BC. We randomly select from a list of BC-based mining companies and analyze whether those companies' most recent technical filings were compliant with the national mining rule. This review shows the extent to which a sample of BC-based mining companies is compliant in specific areas of their technical disclosure.

Status: Not Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
THE DEGREE TO WHICH RANDOMLY SAMPLED MINING COMPANIES COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE							
(a) Filed disclosure	71%[1]	72%[1]	>80%	79%[2]	Improve on 2013 Actual	Improve on 2014 Actual	Improve on 2015 Actual
(b) Company websites	53%[1]	58%[1]	>70%	57%[2]	62%	Increase average by 5% over 2014	Increase average by 5% over 2015

1. The results for fiscal 2011 and 2012 have been adjusted to reflect inconsistencies we identified during the 2013 review in how assumptions were applied. This resulted in a modest increase in overall compliance levels.

2. The results for fiscal 2013 show a modest improvement for filed disclosure over 2012, but remain substantially below target levels for voluntary disclosure on company websites.

Notes on measurement: We measure the degree to which BC mining companies meet mining disclosure standards. To determine the average score per company, staff review 20 separate disclosure requirements in the national mining rule. In our view, an average score for an individual company of 67% or better across these 20 requirements indicates that the company is making a reasonable effort to comply.

The 2013 targets flow out of the results of research done in 2007. At that time, an independent study measured compliance with the disclosure requirements in the national mining rule for filed disclosure and for company websites. The findings for company websites were significantly lower than for filed disclosure. The initial targets were based on those independent findings. The 2013 targets reflect targeted year-over-year improvement from those initial targets. The 2013 actual results will serve as a baseline going forward. These new targets recognize that, based on historical results, these measures fluctuate with no real trend. We aim to improve these percentages as a sign of increased industry compliance above the 2013 baseline.

Measurement 1.3 / Average number of deficiencies per examination in Capital Markets Regulation

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we rate a firm's risk so that we can determine how frequently to visit and what type of exam to conduct. During fiscal 2013, we completed 32 on-site reviews. We summarize the results of these on-site reviews in the annual Examinations Report Card, on the BCSC website at *www.bcsc.bc.ca (For Registrants / Compliance Toolkit).*

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION[1]							
	3.88	5.59	5.31	4.16	3.95	Decrease average by 5% over 2014	Decrease average by 5% over 2015

1. Based on 32 examinations in fiscal 2013, 27 in 2012 and 32 in 2011.

Notes on measurement: The deficiencies from for-cause exams are excluded. The target is set to decrease these percentages as a sign of increased industry compliance. A 5% year-over-year reduction is an ambitious target because of the large number of newly registered businesses.

Goal 2 — Act decisively against misconduct

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities fraud cases and other misconduct through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

Strategy 2.1 / Automate monitoring of internet, social media sites, and spam

Capital market participants have moved to the web. Most issuers use social media, blogs, and investor relations websites to communicate with existing and potential investors. Many investors use the web as a primary research tool for making their investment decisions.

In our experience, issuer web disclosures often depart from the filed record with the BCSC, or contain unsupported statements. However, due to the volume of data involved, manual monitoring limits us to reviewing a small subset of relevant online activity. Automating aspects of the manual processes would expand our field of vision to more quickly identify and act to stop compliance failures.

During the last fiscal year, we researched available tools for online monitoring of social media and designed a pilot project. We also investigated software and services to replace the current manual monitoring of social media and online advertising by people of interest to enforcement. Finally, we completed a detailed project scope document that was needed to prepare a Privacy Impact Assessment.

Strategy 2.2 / Build market intelligence systems capacity for the private placement market

Integrity in the private placement market is vitally important. Our objective was to develop a more efficient way to select companies in the private placement market for compliance reviews. When the new process is in place, we will be able to apply greater scrutiny to higher-risk participants while applying less to lower-risk participants. This strategy responds to **Risk 2: Non-compliance in the private placement market.**

During fiscal 2013, we converted historical forms filed for sales in the private placement market into electronic format to enable us to perform analytics and develop our market intelligence. We started a project to standardize and enrich the private placement data. The work continues into the next fiscal year.

As will be seen under the discussion of Strategy 4.1, we plan to implement the risk-based models during fiscal 2014.

As indicated in the discussion of Strategy 2.1 above, we were not in a position to use technology to monitor online activity of active private placement issuers.

Strategy 2.3 / Address market misconduct associated with offshore secrecy jurisdictions

Bank secrecy laws and nominee account holders frustrate our investigations into insider and manipulative trading in offshore accounts. The objective of this strategy was to obtain more information about dealers that trade in the US OTC markets and about the orders they may receive from secrecy jurisdictions. This strategy responds to **Risk 3: Market misconduct by traders in offshore secrecy jurisdictions.**

Last year, we developed a specific condition of registration for dealers trading in the OTC markets. The condition aims to improve timely access to information from foreign financial institutions. It will be published for comment.

During the year, we also conducted a review of high volume trading by offshore financial institutions conducted through accounts maintained with BC dealers. This work updated a similar review originally done in 2007. Both these reviews assisted in our development of an in-depth follow-up survey of BC dealers. The survey will measure the total trading activity associated with financial institutions from specific foreign jurisdictions and help define compliance challenges associated with this activity. This dealer survey will be conducted after the end of the fiscal year.

Measurements

Measurement 2.1 / Action in response to ongoing misconduct

This measure focuses our efforts on early detection and shows our ability to take early action to stop misconduct. Stopping investment schemes before they start and preventing further participation in existing schemes is more effective than prosecuting them after there is damage to investors. Disruptive action provides a visible valuable benefit to the public.

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual[1]	2013 Target	2013 Actual[2]	2014 Target[3]	2015 Target[3]	2016 Target[3]
AVERAGE DURATION OF COMPLAINT TO ACTIONS							
	108 days	93 days	84 days	73 days	66 days	Decrease average by 10% over 2014	Decrease average by 10% over 2015

1. *In fiscal 2012, we took action on 43 complaints. We removed five outliers that resulted from us issuing freeze orders based on information gathered from our ongoing investigations. In these cases, we determined that the misconduct was no longer active.*
2. *In fiscal 2013, we took action on 37 matters but removed 7 outliers when calculating the average duration of complaint to actions. In the case of those outliers, we decided not to disrupt a matter in the interest of acquiring more solid evidence. When we took action after 180 days in those cases, those actions were not taken to disrupt ongoing activity.*
3. *For 2014 and following, we have modified this measure to better encourage taking disruptive action. We will track the number of disruptive actions taken by staff (2014 target – 41 matters) as well as the average time to act.*

Notes on measurement: Using this program, we track a specific number of intervention types, and measure how long it took us to implement the intervention from the opening of the complaint. We measure this statistic by looking backwards from the disruptive action taken to the discovery of the case. We check whether the activity was active when we discovered it. We then measure the time taken by the Enforcement division to act on these incidents. Disruptive Actions include

- freeze orders
- cease trade orders
- *investor alerts*

We set our future targets to increase the number of disruptive actions as well as to reduce the average time to take action. Management believes a 10% increase in number of disruptive actions and 10% decrease in time taken reflects achievable operational improvements.

Measurement 2.2 / Timely resolution of enforcement cases

We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in a fiscal year, we measure the average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision.

Status: Not Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
AVERAGE LIFE, IN MONTHS, OF CASES RESOLVED VIA SETTLEMENT OR ENFORCEMENT DECISION	25.5	20[1]	18	20.7[2]	14[3]	Set according to review	Set according to review

1. In 2012, we completed 21 cases. Seventeen of these were through decisions with an average duration of 20.3 months and four through settlement with an average duration of 18.6 months. The new Fast Track Program has contributed to this reduction by allowing us to act more swiftly on easily proven cases while maintaining rigour for major investigations.

2. In 2013, we completed 21 cases: 11 by Commission decision with an average duration of 25 months and 10 by settlement involving 16 parties with an average duration of 16 months.

3. We based the 2014 target on historical information about the changed measure we will be using next year.

Notes on measurement: Because of the ever-changing nature of enforcement cases, past history is not a predictor of future results. Indeed Simon Fraser University Statistics Department commented in 2011 that "average duration" is not a statistically sound measure, given our small sample set and the difference between the specifics of each case. The target is set each year based on current cases and measures we can take to ensure timely completion.

For 2014, we will change this measure to account separately for the time taken from case opening to Notice of Hearing and the time from case opening to settlement (where there is no Notice of Hearing).

Goal 3 Educate investors

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness* — We increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early* — We expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education* — We provide tools and information to help investors get better service and advice.
- *Develop partner relationships* — We build partnerships to reach ethnic and religious communities throughout the province.

Strategy 3.1 / *Be Fraud Aware* campaign

The BCSC began a three-year campaign to raise awareness about the warning signs of investment fraud in fall 2011. We want British Columbians to fraud-proof themselves by recognizing and avoiding investment fraud. We want investors to report investment fraud when they encounter or suspect it. This strategy responds to **Risk 1: Illegal distributions and fraud.**

Following our focus on Chinese and South Asian communities in the first year of the campaign, the second year of the campaign in fiscal 2013 focused on English-language investors through TV commercials, new YouTube videos, and a mobile app for the iPhone and iPad. We also updated the Chinese and South Asian TV ads and developed new ethnic language radio commercials. In all media, we emphasized the importance of reporting actual and suspected investment fraud.

Third-party ad tracking research shows that awareness of the BCSC and favourable impressions about the Commission increased among all target audiences. Our in-house tracking of complaints and tips triggered by InvestRight activity shows that calls to BCSC Inquiries more than doubled during the year.

Measurements

Measurement 3.1 / Complaints and tips received as a result of InvestRight programs

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of queries, referrals, tips, and complaints received by phone and email in BCSC Inquiries that are traceable to InvestRight investor education activity, including the number of *Report a Scam* and complaint forms submitted through *InvestRight.org*.

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT PROGRAMS	78	147	154	312[1]	328	Increase 5% over 2014	Increase 5% over 2015

1. We attribute the 112% increase over fiscal 2012 to the introduction of English-language TV commercials, which started in October 2012. Inquiries referred 10% (31) of these calls for Enforcement review, from which 10 cases were opened between October 2012 and year-end.

Notes on measurement: We set these targets according to the expectation that InvestRight education activities will generate more enforcement leads over time. The original targets were set before the Commission undertook to reach British Columbians using mass media advertising. Sustaining this level of contact with the BC public depends directly on the level of our advertising investment. Once the current advertising campaign is completed in 2014, we can expect the number of complaints to drop to pre-campaign levels.

Measurement 3.2 / Percentage of workshop participants who recall investor education warning signs (Red Flags)

We deliver investor education workshops to BC residents, primarily retirees and pre-retirees. Three months later, an independent consultant conducts a follow-up phone survey with each participant who previously agreed to be contacted. To determine recall of investment fraud warning signs amongst those we have spoken to, the consultant asks each respondent, *"Can you name any warning signs of investment fraud?"*

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
PERCENTAGE OF WORKSHOP PARTICIPANTS WHO RECALL THREE INVESTOR EDUCATION WARNING SIGN MESSAGES (RED FLAGS)	13%	19%	22%	28%[1]	31%	Increase 3% over 2014	Increase 3% over 2015

1. We attribute increased recall to audience's familiarity with the Be Fraud Aware English-language television commercials, which virtually all audience members recognized in the workshop presentations.

Notes on measurement: Data accuracy has improved over previous years based on the use of survey software. We can influence this measure by creating tightly messaged presentations, sending strong presenters to each workshop, and contacting attendees within three months of hearing the messages. We can't control it, however, because people's willingness to volunteer for the follow-up survey doesn't correlate with their attentiveness during the presentation. The 3% target increases are a stretch goal for what we can practically achieve.

Measurement 3.3 / Percentage of BC public aware of BCSC

We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We use a consultant to survey the BC general population, either as part of a larger research effort or to gather data for this measure.

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
PERCENTAGE OF BC PUBLIC AWARE OF BCSC							
	46%	41%	> 45%	49%[1]	> 45%	> 45%	> 45%

1. The reason for this year's higher level of awareness is directly related to the BCSC's Be Fraud Aware campaign. Once this campaign is completed in 2014, the percentage will undoubtedly drop back to pre-campaign levels. It is also important to note that awareness was 52% among investors and 59% with our key target audience aged 55+.

Notes on measurement: The >45% target is based on historical results. We survey British Columbians 18+ in keeping with the BCSC's province-wide mandate and because investment fraud can happen at any age to anyone with savings and/or other assets. Given increased vulnerability of older adults to investment fraud, the majority of our programs target retirees and pre-retirees and we focus our advertising dollars in regions where we know people have been defrauded. Thus, the target is a stretch goal for what we can practically achieve.

Goal 4 Advance cost-effective regulation

Our goal is to advance cost-effective regulation. Regulation imposes costs through fees, compliance costs, and restrictions on innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost.

We advance cost-effective regulation by focusing on three core areas:

- *Emphasize practical solutions* — When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Use our resources efficiently* — We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Deliver services reliably* — We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

Strategy 4.1 / Build risk-based approaches for critical regulatory operations

Implementing risk-based modeling will build a strong foundation for making consistent and defensible oversight decisions based on data from regulatory filings and other data sources. It will enable the BCSC to focus staff's experience and judgment on higher-risk market participants and vary the intensity of oversight tools based on risk. This will translate into lower-risk market participants experiencing less resource-intensive oversight and demonstrate cost-effective regulation to stakeholders.

During fiscal 2013, we developed business requirements for each of the four models:

- *Individual registration applicants* — to reduce risk of unqualified and unethical individual registrants dealing with the public
- *Registered firms* — to reduce the risk of significant compliance deficiencies and allocate exam resources
- *Public company disclosure* — to reduce risk of companies providing investors with incomplete, inaccurate, or dishonest information and allocate review resources
- *Private placement filings* — to reduce risk of non-reporting companies misusing exemptions or providing non-compliant disclosure to investors, and to allocate assessment resources

We also began the development of the IT infrastructure required to make the models operational and updated our development environment.

Our objective at the start of the year was to implement the risk models fully in fiscal 2013. We did not meet that objective. We aim to complete the implementation in calendar 2013.

Strategy 4.2 / Venture issuer regulation

Fast-growing companies, predominantly in their first 10 years of existence, create proportionately more new net employment in the broader market than long-established enterprises. A healthy venture company market, together with strong resource markets, provided a catalyst for significant economic growth in British Columbia in recent years.

During fiscal 2013, we republished for comment a revised version of proposed rules and forms. The proposed rule would create a tailored governance and disclosure regime for venture issuers. In response to comments, this version would maintain the existing requirement for quarterly financial statements. It would replace the current requirement for quarterly Management Discussion and Analysis with one page quarterly highlights documents.

Also during the past year, we updated the cost-benefit analysis of the proposed rule to reflect the changes in the republication version. As part of that analysis, we surveyed venture companies about the impact of the key changes on them.

Measurements

Measurement 4.1 / Average score on cost-effective regulation scorecard

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems.

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD							
	95%	90.6%	> 90%	93%[1]	> 90%	> 90%	> 90%

1. In fiscal 2013, we had five policy projects that qualified for review; none of which was a BC-only initiative.

Notes on measurement: We report the average score of all the projects completed each year. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process the CSA uses to create harmonization rules does not consider problem definition or alternative tools. The target of greater than 90% is set so that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area.

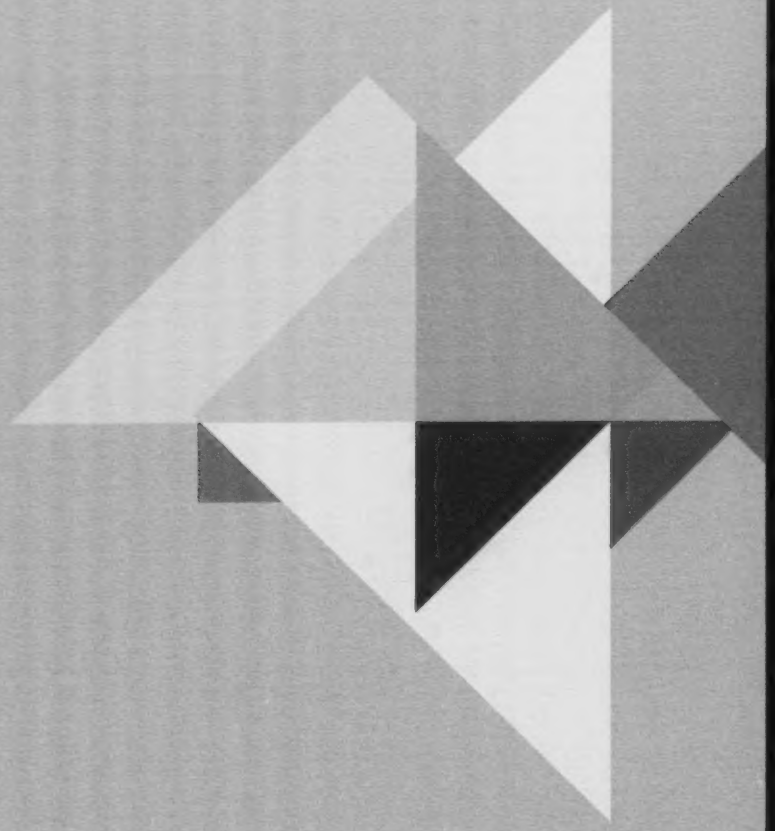
Measurement 4.2 / Average approved project post-implementation score

We assess each local IT-enabled project at a predetermined time after the project's completion (as documented in the project proposal) and score the project's success relative to its proposed benefits.

Status: Met	Results and targets						
Fiscal	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	2015 Target	2016 Target
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE							
	N/A	100%	> 80%	93%[1]	> 80%	> 80%	> 80%

1. This year Information Management measured four projects.

Notes on measurement: Our objective is that our IT projects will be well executed. We recognize that there will frequently be issues from which we can learn. We consider an 80% post-implementation score to evidence a successful and well-run project.



Financial Report

Audited Financial Statements

Management Discussion & Analysis

For the Year Ended March 31, 2013

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 9, 2013. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2013.

We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. Totals and percentages may not always add up due to rounding.

Nature of Operations

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 80% of operating expenses. For the year ended March 31, 2013, we had an average of 221 full-time equivalent employees (fiscal 2012 – 210).

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases. Effective April 1, 2013, BC returned to the PST/GST tax structure. Beginning in fiscal 2014, we pay both the PST (7%) and GST (5%) on taxable purchases. We will receive a 100% rebate on GST, but PST-taxable purchases, most significantly professional fees, will cost 7% more.

Management Discussion & Analysis

For the Year Ended March 31, 2013

Financial Highlights

Year ended March 31

($ millions)	Budget	2013	2012
REVENUES			
Regulatory fees	$ 36.8	$ 34.2	$ 34.9
Enforcement sanctions	0.3	1.0	0.3
Investment income	2.2	2.2	1.6
	$ 39.3	$ 37.4	$ 36.9
EXPENSES			
Salaries and benefits	$ 26.7	$ 27.0	$ 25.9
Education program disbursements	2.3	2.2	1.5
Other expenses	9.7	9.3	8.9
	$ 38.7	$ 38.5	$ 36.2
Surplus (deficit), for the year	**$ 0.6**	**$ (1.1)**	**$ 0.6**
ASSETS			
Cash		$ 20.6	$ 6.5
Investments		$ 16.6	$ 36.1
Capital assets		$ 6.5	$ 3.2
Accumulated surplus		$ 31.4	$ 33.6
Other information			
Capital additions		$ 4.2	$ 2.2
Debt		$ -	$ -

Operations generated a $1.1 million deficit for 2013, versus a $0.6 million budgeted surplus for 2013 and a $0.6 million surplus for 2012.

Revenues increased $0.5 million (1%), but were $1.9 million (5%) lower than expected. Expected investment gains and higher than expected enforcement sanction receipts were offset by lower fee revenue. Registration fees grew significantly less than expected, and the timing of financial filing deadlines and mutual fund prospectus renewals pushed more than $0.6 million of financial filings and distribution revenue into the coming fiscal year.

Operating costs increased $2.3 million (6%), slightly below budget. Net of consulting effort, average FTEs increased 8%, to implement a case management system, to begin developing risk models for our key regulatory functions, to upgrade our IT infrastructure, to begin the redesign of our public website, and to add enforcement capacity. However, salaries and professional fees increased only a net $0.7 million (2%) because we capitalized $2.1 million of project effort. Education spending increased $0.8 million (52%) because we expanded our *Be Fraud Aware* investor education campaign to additional mediums.

We remain financially strong, ending the year with $37.2 million in cash and investments.

Management Discussion & Analysis

For the Year Ended March 31, 2013

Revenue Sources

More than 90% of our funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. A small component of our funding comes from sanctions and penalties. The remainder of our operational funding comes from investment income.

Fee revenue

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during periods of lower market activity.

We collect the following fees:

		Proportion of fee revenue	
Category	Source	Fiscal 2013	Fiscal 2012
Distribution fees	Public companies, private companies, and mutual funds, to file disclosure documents	53%	55%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	32%	31%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14%	13%
Other fees	Market participants, primarily to request *Securities Act* exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses[1], exempt distribution reports[2] and annual information forms[3]. Issuers pay fees to file these documents. When gross sales under a prospectus and an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Percent of proceeds fees account for about half of distribution fee revenues and fluctuate based upon market activity.

1. Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

2. Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to information about the proposed transaction that could affect their purchase decision.

3. Annual information forms give current details of the operations, financial status, and management of the company.

About half of distribution fee revenue relates to fees from mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market activity.

Registration fees

Firms and individuals register with us to sell or advise on securities. Registration fee revenue has low volatility and grows modestly most years.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and pay a higher fee if they file late. The reporting issuer population increases modestly most years.

Other fees

Other fees are mostly exemption application filing fees. Other fees account for a small proportion of fee revenue and are not growing.

Enforcement sanctions

We order administrative penalties and the return of ill-gotten gains to victims under the *Securities Act*. We also negotiate settlement amounts. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

We recognize in revenue sanctions we determine are collectible. We spend these revenues only to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

Year ended March 31

($ millions)	2013	2012
ENFORCEMENT SANCTIONS		
Current period sanctions	$ 22.2	$ 55.9
Uncollectible portion of sanctions not recognized	(21.6)	(55.7)
Recovery of prior year uncollectible sanctions	0.4	0.1
Sanction revenue	$ 1.0	$ 0.3

Collecting sanctions is difficult. Collection targets often have limited assets, have poor credit, or have left BC. We have collected $15.0 million (7%) of $220.9 million sanctioned since our incorporation on April 1, 1995. We continue to pursue the outstanding amounts vigorously. However, of the $205.9 million outstanding sanctions, only $0.4 million is likely collectible and accrued in our financial statements. About 81% ($167.0 million) of the outstanding sanctions relates to eight cases. About 49% ($100.1 million) of the outstanding sanctions relates to disgorgement orders.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities.

Management Discussion & Analysis

For the Year Ended March 31, 2013

Detailed Revenue Analysis

Revenues increased $0.5 million (1%) from the prior year. Unexpectedly high enforcement sanction receipts, expected gains from investments, and modest registration growth was partly offset by 5% lower distribution fee revenue from lower capital-raising activity.

Revenues were $1.9 million (5%) below budget. The lower market activity noted above, 8% lower registration revenues from expected but unrealized exempt market dealer registrations, and 8% lower financial filing revenues, due to the timing of receiving filing fees, were only partly offset by high enforcement sanction receipts.

Year ended March 31, 2013

	Actual versus Budget				Actual versus Last Year			
(thousands)	Actual	Budget	Variance	%	Mar. '13	Mar. '12	Variance	%
REVENUES								
Distribution	$ 18,260	$ 19,500	$ (1,240)	-6%	$ 18,260	$ 19,198	$ (938)	-5%
Registration	11,094	12,038	(944)	-8%	11,094	10,860	234	2%
Fin. Filing	4,683	5,070	(387)	-8%	4,683	4,668	15	0%
Other	163	184	(21)	-11%	163	171	(8)	-5%
Enforcement sanctions	998	300	698	233%	998	345	653	189%
Inv. Income	2,220	2,200	20	1%	2,220	1,630	590	36%
	$ 37,419	$ 39,292	$ (1,873)	-5%	$ 37,419	$ 36,872	$ 546	1%

Revenue analysis versus last year

We have not increased fee rates in over a decade. Fee revenue declines reflect lower market activity. Overall, revenue increased $0.5 million (1%):

- Distribution revenue was $0.9 million lower due to $0.4 million lower non-mutual fund fees, $0.2 million lower annual information form fees, and $0.1 million lower exempt distribution fees because of lower market activity, and $0.3 million lower mutual fund fees because of the timing of prospectus renewals.
- Registration revenue, which relates primarily to individual registrations, increased $0.2 million due to an increase in the number of registrants, consistent with historical growth.
- Enforcement sanctions increased $0.7 million due to higher receipts.
- Investment income increased $0.6 million due to realizing gains on investments. Our annualized real return on investable assets was 6.1% (2012 - 6.9%).

Revenue analysis versus budget

Revenue was $1.9 million (5%) below budget:

- Distribution revenue was $1.2 million lower than expected. We expected non-mutual fund prospectus and exempt distribution fees to increase over the prior year. Instead, lower than expected market activity generated below budget results of $0.5 million in non-mutual fund filing fees, $0.5 million lower exempt distribution fees and $0.2 million lower annual information form fees.
- Registration revenue was $0.9 million lower than expected. We budgeted for new exempt market dealer registrations that did not materialize.

- Financial filing revenue was $0.4 million lower than budget because a key date fell on a holiday, pushing the filing deadline into fiscal 2014.
- Enforcement sanctions increased $0.7 million due to higher receipts.

Key Expenses

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant unbudgeted expenses, and continually improving our processes.

Salaries and benefits

Staff salaries account for over 70% of our expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, our compensation package includes performance-based salary increases. To remain competitive, we conduct salary surveys annually and make adjustments as appropriate. We estimate the following allocation of our staff effort (with overhead allocated proportionately):

	Fiscal 2013	Fiscal 2012
Promote a culture of compliance (Goal 1)	38%	41%
Act decisively against misconduct (Goal 2)	40%	39%
Educate investors (Goal 3)	7%	7%
Advance cost effective regulation (Goal 4)	15%	13%

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- risk model implementation consulting
- legal services and expert opinions
- fees paid to IIROC for registration services delegated to them
- our share of CSA project and management costs
- legislative counsel services
- interview and hearing transcription services
- data entry services
- internal audit services

Education

Many British Columbians are not financially literate or investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors. We expend funds to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria that assess a potential partner's background and experience, the need for the project, the project's design and success measures, and the degree to which the project's goals align with our service and operating plans.

Information management

We spend significant amounts on information systems and management annually to improve access to our services and information, to increase our capacity to monitor and analyze market activity, and to increase the efficiency of our processes. Information management has three main components:

- software licensing and maintenance fees
- electronic information services and hardcopy materials
- physical record scanning and storage costs

Detailed Expense Analysis

Expenses increased 6%. We added 9% organizational capacity, both employed and contracted, to begin implementing four risk management models and several infrastructure projects. However, we capitalized most of the increased effort. We significantly increased education spending to expand our investor fraud awareness education program. Occupancy costs increased because of rent increases and depreciation increased because of higher IT capital spending over the last two years.

Expenses were 1% below budget. Severance caused a salaries variance and higher software licensing, scanning, and records storage costs caused an information management variance, but these were more than offset by strong management control of travel and training expenses and lower than budget depreciation due to the timing of projects.

Year Ended March 31, 2013

(thousands)	Actual versus Budget				Actual versus Last Year			
	Actual	Budget	Variance	%	Mar. '13	Mar. '12	Variance	%
EXPENSES								
Salaries	$ 27,023	$ 26,710	(313)	-1%	$ 27,023	$ 25,914	1,109	4%
Professional Fees	2,861	3,050	189	6%	2,861	3,325	(464)	-14%
Occupancy	2,659	2,604	(55)	-2%	2,659	2,272	387	17%
Depreciation	938	1,250	312	25%	938	652	286	44%
Information Management	1,179	919	(260)	-28%	1,179	977	202	21%
Education	2,212	2,325	113	5%	2,212	1,452	760	52%
Other	1,653	1,880	227	12%	1,653	1,653	-	0%
	$ 38,526	$ 38,738	$ 213	1%	$ 38,526	$ 36,244	$ 2,280	6%

Expenses versus last year

Expenses increased $2.3 million (6%):

- Salaries increased $1.1 million. Staff increased 8% to support strategic initiatives, nonmanagement salaries increased an average 2% from merit increases, and severance rose. We partly offset these increases by capitalizing $1.2 million of project effort.
- Professional fees declined $0.5 million. Last year we expensed $0.7 million to design four risk models. This year, we began implementing those models, capitalizing the $0.9 million of related consulting. Partly offsetting the decline were $0.1 million one-time security costs and $0.1 million higher legal and other expert consulting.
- Occupancy increased $0.4 million due to rent increases.
- Depreciation increased $0.3 million due to higher IT capital spending during the last two years.
- Information management increased $0.2 million due to higher software licensing and evidence scanning costs.
- Education spending increased $0.8 million, as previously noted.

Expenses versus budget

Expenses were $0.2 million (1%) below budget:

- Salaries were $0.3 million higher than budget due to higher than expected severance.
- Professional fees were $0.2 million lower than budget because privacy law concerns prevented an on-line monitoring project from proceeding.
- Depreciation was $0.3 million lower than budget primarily due to implementing a case management system later than planned.
- Information management expense was $0.3 million higher than budget due to $0.2 million higher software licensing costs to upgrade to Windows 7, and $0.1 million higher evidence scanning costs.
- Other expenses were $0.2 million lower than budget due to strong management of travel and training expenses being partly offset by higher recruitment costs.

Financial Position and Liquidity

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and investments. Our cash and investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities. Liquidity risk is low because our investments are in demand deposits and in pooled fund units redeemable within two weeks without penalty. The underlying assets in the pooled fund units are also highly liquid.

Our pooled fund investments expose the BCSC to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2013 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.2 million. However, we expect interest rates to remain unchanged over the coming year. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Canadian Universe Bond Fund is 7.2 years.

Management Discussion & Analysis

For the Year Ended March 31, 2013

Liquidity

Cash flow was positive at $14.0 million (fiscal 2012 - negative $9.9 million) because we sold $20.5 million of investments, built and acquired $4.2 million of capital assets, and used a net $2.3 million to run operations.

Our fee model may result in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn. We ended the year with $37.2 million in cash and investments, a $5.4 million reduction over the comparative year. We have internally designated $15 million of the surplus to a fee reserve, so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

Assets

Amounts receivable increased $0.4 million to $0.9 million (March 31, 2012 - $0.5 million). About 43% of the balance relates to enforcement sanctions receivables, 37% to HST receivables, 3% to national project recoveries, and 9% to ongoing cost recoveries due from the Canadian Securities Regulation Regime Transition Office.

Capital assets increased $3.2 million (100%) to $6.5 million, net of $0.9 million depreciation. Capital spending related primarily to IT improvements, totalled $4.2 million for the year, as follows:

Project	*($ millions)*
Case management	0.9
Risk models	0.9
Windows 7	0.8
General IT infrastructure	0.6
Network storage	0.5
Public website	0.3
Office renovations	0.2
	4.2

Prepaid expenses remained unchanged at $0.5 million (March 31, 2012 - $0.5 million), and relate primarily to prepaid software licenses and registration processing fees paid in advance.

We ended the year with $31.4 million surplus (March 31, 2012 - $33.6 million). We have internally designated $15 million of the surplus to a fee stabilization reserve as noted above. We have internally designated $0.5 million of the surplus to our education reserve because we believe sanction receipts should fund investor and industry education, not our operations.

Liabilities

Accounts payable increased $0.3 million to $2.2 million (March 31, 2012 - $2.0 million), reflecting a significant increase in project-related consulting work completed but not paid at year-end.

Accrued salaries increased $0.2 million to $3.1 million (March 31, 2012 - $2.9 million). We paid out fiscal 2012 performance incentives in June 2012 and accrued towards fiscal 2013 performance incentives.

Deferred revenue increased to $7.7 million (March 31, 2012 - $7.6 million) because of higher registration volumes. Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our significant contractual obligations at March 31, 2013 relate to our office lease, and are:

($ millions)	Total	< 1 year	2 - 3 years	4 - 5 years	> 5 years
Rent and operating costs	27.7	2.9	6.1	6.3	12.4

Subsequent to year-end, we expanded our space by 13% at terms similar to our existing lease.

Internal Control Over Financial Reporting (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2013 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our ICFR.

Risk Management

Risk management approach

We practice enterprise risk management (ERM) to identify and manage our business risks. We follow an Australian risk management standard (AS/NZS 4360:2004, or AS 4360). Our ERM process updates the Board semi-annually on key risks and supports our strategic planning process. We maintain a business continuity plan and can restore critical functions within one day.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising during periods of strong market activity and falling during periods of weak market activity. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2013, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system.

National electronic filing systems and operating agreements

BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, the l'Autorité des marchés financiers (collectively, the Principal Administrators or PAs), and the Investment Industry Regulatory Organization of Canada Inc. (IIROC) contract with CDS to operate SEDAR, SEDI, and NRD.

CDS charges user fees to cover budgeted system operating costs. The PAs, and IIROC for NRD, are responsible for any operating cost shortfalls. The PAs, and IIROC for NRD, share an undivided interest in system surpluses to April 1, 2013. We have agreed to use these system surpluses only for the benefit of national filing system users.

The OSC is holding $94.4 million (March 31, 2012 - $80.5 million) in trust, on behalf of the PAs and IIROC. These funds are the systems' accumulated surpluses, including investment income thereon and net of $5.0 million spent since fiscal 2010 to maintain and improve the systems.

Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing system governance under the PAs and transition system management from CDS to CGI.

Under the arrangements, each of the four PAs has one vote on national electronic filing system matters. This arrangement is a government partnership, and results in our proportionate consolidation of twenty-five percent of national filing system assets and operations effective April 2, 2013.

We estimate that this change will increase our consolidated net assets by $23.5 million and will increase consolidated operating results by $3.5 million. These net assets and operating results related to the national electronic filing systems are restricted to fund CSA systems operations, future system enhancements and fee adjustments and will not be available to fund our operations.

Selected Annual Information and Financial Outlook

The table below summarizes results for the last five years, our fiscal 2014 budget, and projected results for fiscals 2015 and 2016, all as of the date we prepared the fiscal 2014 Service Plan. We prepared the results, budget, and projections using Canadian Generally Accepted Accounting Principles for fiscals 2009 through 2010, and using Canadian Public Sector Accounting Standards for fiscals 2011 through 2016.

The fiscal 2014 budget assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions at the time we prepared the fiscal 2014 Service Plan. Fiscal 2015 and 2016 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions at the time we prepared the fiscal 2014 Service Plan, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2014 – 2016 periods will vary from the information presented and those variations may be material.

Management Discussion & Analysis

For the Year Ended March 31, 2013

($ millions)	Audited 2009	Audited 2010	Audited 2011	Audited 2012	Audited 2013	Budget 2014	Projected 2015	Projected 2016
OPERATIONS								
Regulatory fees	30.5	30.8	33.5	34.9	34.2	40.2	41.0	41.5
Enforcement sanctions	0.3	0.3	0.4	0.3	1.0	0.4	0.4	0.4
Investment income	1.3	0.3	1.0	1.6	2.2	0.6	0.8	0.9
	32.1	31.4	34.9	36.9	37.4	41.2	42.2	42.8
EXPENSES								
Salaries and benefits	22.6	23.1	23.5	25.9	27	25.8	26.3	26.8
Education	0.7	0.9	0.6	1.5	2.2	2.3	1.7	1.0
Other expenses	7.2	6.9	7.0	8.9	9.3	12.9	13.1	12.5
	30.4	30.8	31.2	36.2	38.5	41	41.1	40.3
Surplus (deficit)	1.6	0.6	3.7	0.6	(1.1)	0.2	1.1	2.5
ACCUMULATED SURPLUSES								
Unrealized gains/(losses)	-	-	(0.3)	0.8	(0.3)	-	-	-
Undesignated surplus	9.1	10.3	14.4	16.1	16.2	13.4	11.0	10.0
Fee stabilization reserve	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
National systems	-	-	-	-	-	27.5	31.0	34.5
Education reserve	3.7	3.1	2.8	1.7	0.5	-	-	-
	27.8	28.3	32	33.6	31.4	55.9	57.0	59.5
OTHER INFORMATION								
Capital purchases	0.7	0.3	0.6	2.2	4.2	7.6	2.8	2.0
Debt	-	-	-	-	-	-	-	-

Read the BCSC fiscal 2014 Service Plan for more information about our Financial Outlook.

MD&A Supplement–Compensation Disclosure

For the Year Ended March 31, 2013

Compensation Structure

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires *Public Sector Employers' Council* approval.

The BCSC manages its compensation through effective internal governance policies (see page 10 for more information) and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the chair's performance against her objectives. In consultation with the chair, the Human Resources Committee reviews the performance of other executives and senior managers
- The Human Resources Committee recommends, for board approval, the chair's compensation
- The chair and executive director consult the Human Resources Committee on the compensation of other executives and senior managers

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

Compensation Philosophy

Our goal is median compensation. We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based salary increases. In fiscal 2013, compensation included performance-based incentives.

Incentive Principles (Fiscal 2013)

Employees participated in an incentive plan, following these principles:

- Incentive awards depend on our ability to fund them
- Incentives are based on individual, divisional, and commission performance

Incentive Targets (Fiscal 2013)

Incentive targets varied depending on positions' potential impact on commission performance. Named officers (Chair, Vice Chair, Executive Director, Manager, Special Investigations Unit, and the General Counsel) had incentive targets ranging from 20 – 40%. In addition, a personal achievement factor, ranging from nil to 1.75, was applied. In some cases, total compensation was subject to government compensation maximums.

MD&A Supplement–Compensation Disclosure

For the Year Ended March 31, 2013

Fiscal 2013 Compensation Summary

(in dollars, except for meetings attended)

Position	Name	Base	Incentive	Pension	Other[1]	2013	2012	2011	Meetings attended[2]
EXECUTIVE COMMISSIONERS									
Chair	Brenda M. Leong	381,780	55,393	40,962	21,116	499,251	499,251	499,251	16
Vice Chair	Brent W. Aitken	325,452	99,499	–	11,202	436,153	440,773	443,631	16
SENIOR MANAGEMENT									
Executive Director	Paul Bourque	257,500	93,852	27,378	21,270	400,000	400,000	343,496	N/A
Manager, Special Investigation Unit	Langley E. Evans	206,590	36,277	21,814	10,543	275,224	276,747	273,959	N/A
General Counsel	David M. Thompson	181,452	44,608	19,081	16,420	261,561	252,709	242,353	N/A

Position[3]	Name	Fees	Other[4]	2013	2012	2011	Meetings attended[2]
INDEPENDENT COMMISSIONERS							
Commissioner	Bradley Doney	62,488	2,323	64,811	61,250	54,298	16
Commissioner	Kenneth G. Hanna	97,825	134	97,959	57,340	58,643	16
Commissioner	Don Rowlatt	89,800	121	89,921	55,888	49,413	15
Commissioner	David J. Smith	25,350	38	25,388	59,644	56,598	7
Commissioner	Shelley C. Williams	33,525	1,532	35,057	63,631	58,461	11
Commissioner	Suzanne K. Wiltshire	86,823	2,828	89,651	48,780	57,687	16
Commissioner	George C. Glover, Jr.	15,842	14	15,856	N/A	N/A	3
Commissioner	Audrey T. Ho	11,897	359	12,256	N/A	N/A	3
Commissioner	Judith Downes	8,222	319	8,541	N/A	N/A	3

Our Independent Commissioner compensation policy is located on the BCSC website.

Compensation Consultants

During the year, we hired Towers Watson to review incentive design and we hired Western Compensation & Benefits Consultants to perform a salary survey.

1. Other includes long-term disability plan premiums, Canada Pension Plan premiums, parking and transit, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, and fitness reimbursements.

2. During fiscal 2013, the Board scheduled, and held during the year, 12 regular monthly board meetings, 2 SRO meetings and 2 special meetings.

3. These are part-time positions.

4. Other includes Canada Pension Plan premiums and Worksafe premiums.

Management's Responsibility and Certification

Management is responsible for ensuring that the financial statements and other financial information included in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards.

We certify that:

- We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with PSAB
- We directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- We have reviewed the financial statements and other information in this annual report (Report)
- We believe the Report reflects all material facts for the period it covers
- We do not believe the Report misstates any material fact

We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (BCSC) as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with Canadian public sector accounting principles. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.

BRENDA M. LEONG
Chair and Chief Executive Officer

PAUL C. BOURQUE
Executive Director

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Finance, Province of British Columbia

I have audited the accompanying financial statements of the British Columbia Securities Commission ("the entity"), which comprise the statement of financial position as at March 31, 2013, and the statement of operations and change in accumulated surplus, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2013, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
May 9, 2013

John Doyle, MAcc, FCA
Auditor General

STATEMENT OF FINANCIAL POSITION

(audited)
British Columbia Securities Commission

	March 31, 2013	March 31, 2012
FINANCIAL ASSETS		
Cash (note 4)	$ 20,579,704	$ 6,548,751
Investments (note 5)	16,633,044	36,060,975
Amounts receivable (note 6)	939,404	528,362
	38,152,152	43,138,088
LIABILITIES		
Accounts payable and accrued liabilities	$ 2,222,358	$ 1,961,933
Accrued salaries	3,083,046	2,885,106
Deferred registration fee revenue	7,664,623	7,577,482
Employee leave liability (note 7)	792,065	844,993
	13,762,092	13,269,514
NET FINANCIAL ASSETS	24,390,060	29,868,574
NON-FINANCIAL ASSETS		
Tangible capital assets (note 8)	$ 6,466,674	$ 3,236,381
Prepaid expenses (note 9)	541,645	496,586
	7,008,319	3,732,967
Accumulated Surplus	31,398,379	33,601,541
Accumulated Surplus is comprised of:		
Accumulated surplus (note 10)	$ 31,738,790	$ 32,845,839
Accumulated remeasurement gains / (losses)	(340,411)	755,702
	31,398,379	33,601,541

Commitments and contingencies (note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

BRENDA M. LEONG
Chair and Chief Executive Officer

SUZANNE K. WILTSHIRE
Chair, Audit Committee

STATEMENT OF OPERATIONS AND CHANGE IN ACCUMULATED SURPLUS

(audited)

British Columbia Securities Commission

For the Year Ended	March 31, 2013		March 31, 2012
	Budget *(note 18)*	Actual	Actual
REVENUES			
Regulatory fees			
Prospectus and other distributions	$ 19,500,000	$ 18,260,489	$ 19,198,328
Registration	12,038,000	11,094,312	10,859,686
Financial filings	5,070,000	4,682,779	4,667,986
Exemptive orders and other	184,000	163,409	170,652
Enforcement sanctions (note 11)	300,000	998,179	344,935
Investment income (note 12)	1,000,000	1,016,487	1,545,189
Realized gains on investments (note 12)	1,200,000	1,203,315	85,091
	$ 39,292,000	$ 37,418,970	$ 36,871,867
EXPENSES			
Regulatory operations (note 13)	$ 38,738,000	$ 38,526,019	$ 36,244,181
Surplus (deficit), for the year	$ 554,000	$ (1,107,049)	$ 627,686
Accumulated surplus, beginning of year		$ 32,845,839	$ 32,218,153
Accumulated surplus, end of year		$ 31,738,790	$ 32,845,839

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

(audited)
British Columbia Securities Commission

For the Year Ended	March 31, 2013	March 31, 2012
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF YEAR	$ 755,702	$ (261,252)
Unrealized gain on investments	107,202	1,102,045
Realized (gain) on investments, reclassified to operations (note 12)	(1,203,315)	(85,091)
ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF YEAR	$ (340,411)	$ 755,702

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

(audited)
British Columbia Securities Commission

For the Year Ended	March 31, 2013		March 31, 2012
	Budget *(note 18)*	Actual	Actual
Surplus (deficit), for the year	$ 554,000	$ (1,107,049)	$ 627,686
Acquisition of tangible capital assets	$ (3,928,000)	$ (4,168,615)	$ (2,171,469)
Amortization of tangible capital assets	1,250,000	938,322	652,416
	$ (2,678,000)	$ (3,230,293)	$ (1,519,053)
Acquisition of prepaid expense		$ (926,127)	$ (658,279)
Use of prepaid expense		881,068	485,614
		$ (45,059)	$ (172,665)
Effect of net remeasurement gains (losses) for the year		$ (1,096,113)	$ 1,016,954
(Decrease) in net financial assets		$ (5,478,514)	$ (47,078)
Net financial assets, beginning of year		29,868,574	29,915,652
Net financial assets, end of year		$ 24,390,060	$ 29,868,574

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(audited)

British Columbia Securities Commission

For the Year Ended	March 31, 2013	March 31, 2012
OPERATING TRANSACTIONS		
Cash received from:		
Fees	$ 34,247,965	$ 35,475,627
Enforcement sanctions	691,843	333,433
Interest	51,620	68,003
	$ 34,991,428	$ 35,877,063
Cash paid for:		
Cash paid to and on behalf of employees	$ (26,846,274)	$ (26,016,465)
Cash paid to suppliers and others	(10,445,586)	(8,996,111)
	$ (37,291,860)	$ (35,012,576)
Cash provided (used) by operating transactions	$ (2,300,432)	$ 864,487
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	$ (4,168,615)	$ (2,171,469)
INVESTING TRANSACTIONS		
Proceeds from disposals of investments	$ 93,484,333	$ 27,817,131
Investments	(72,984,333)	(36,417,131)
	$ 20,500,000	$ (8,600,000)
Increase (decrease) in cash	$ 14,030,953	$ (9,906,982)
Cash, beginning of year	$ 6,548,751	$ 16,455,733
Cash, end of year	$ 20,579,704	$ 6,548,751

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2013 (audited)
British Columbia Securities Commission

1. Nature of Operations

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a Crown corporation, the BCSC is exempt from income taxes. We pay Harmonized Sales Tax (HST) and receive a 100% rebate. Effective April 1, 2013, BC returned to the PST/GST tax structure. Beginning in fiscal 2014, we pay both the PST (7%) and GST (5%) on taxable purchases. We will receive a 100% rebate on GST, but PST-taxable purchases, most significantly professional fees, will cost 7% more.

2. Significant Accounting Policies

Management has prepared these financial statements in accordance with generally accepted accounting principles for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). Significant accounting policies followed in the preparation of these financial statements are:

a) Financial instruments

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability. Under the *Securities Act*, we must invest any money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. We account for all of our financial instruments on a fair value basis, as follows:

- We record cash and investments at fair value (fair value measurement hierarchy level one – quoted market prices). We consider the fair value of our investments to be market value because of their highly liquid nature.
- We record all other financial instruments at cost (fair value measurement hierarchy level three – not based on observable market data), which approximates fair value.

We recognize realized gains and losses in net income, in the period that they arise. We record unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses). Any investment earnings are reinvested in the portfolio and returns adjust the carrying value of the units we own.

b) Tangible Capital assets

We record our tangible capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our tangible capital assets to be as follows:

- Information technology – four years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years

c) Prepaid expenses

Prepaid expenses include calendar year registration processing fees and prepaid information technology maintenance contracts and are charged to expense over the periods of expected benefit.

2. Significant Accounting Policies (continued)

d) Revenue Recognition

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We defer registration fees and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

e) Expenses

We report expenses on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

f) Measurement Uncertainty

Canadian public sector accounting standards require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of tangible capital assets
- value of the employee leave liability

Estimates reflect the best information available when we prepare the financial statements. We review estimates of employee leave liability annually. We review all other estimates on a quarterly basis.

Actual results may differ from these estimates.

3. Financial Instruments

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

Cash is demand deposits held at a Schedule 1 Canadian chartered bank.

Our investments are in units of bcIMC investment pools. Our investment policy allows us to buy units of the following bcIMC pooled funds:

- *Canadian Money Market Fund (ST1)* — Canadian money market investments with original maturities of less than 45 days
- *Canadian Money Market Fund (ST2)* — Canadian money market investments with original maturities of less than 15 months
- *Short Term Bond Fund* — Canadian federal and provincial government bonds and Canadian dollar fixed income securities that are insured or guaranteed by sovereign governments, and supranational debt securities, all maturing within five years
- *Canadian Universe Bond Fund* — Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years

Our use of financial instruments to invest exposes us to the following risks:

- *Credit risk* — the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *Liquidity risk* — the possibility that we will not be able to sell our investments when we want
- *Market risk* — the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *Interest rate risk* — the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments expose the BCSC to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2013 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.2 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to remain unchanged over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Canadian Universe Bond Fund is 7.2 years.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability do not expose us to significant financial risk because of their small size and short-term nature.

4. Cash

Cash is demand deposits, as follows:

	March 31, 2013		March 31, 2012	
	Market Value	Cost	Market Value	Cost
Cash	$ 20,579,704	$ 20,579,704	$ 6,548,751	$ 6,548,751

5. Investments

Investments are carried at fair value, and consist of:

	March 31, 2013		March 31, 2012	
bcIMC pooled funds	Market Value	Cost	Market Value	Cost
Short Term Bond Fund	$ -	$ -	$ 12,971,511	$ 12,976,668
Canadian Universe Bond Fund	16,633,044	16,973,455	23,089,464	22,328,605
	$ 16,633,044	$ 16,973,455	$ 36,060,975	$ 35,305,273

Investment distributions, net of management fees, are reinvested in the portfolio and adjust the carrying value of the units we own.

6. Amounts Receivable

Amounts receivable consists of:

	March 31, 2013	March 31, 2012
Enforcement sanctions (note 11)	$ 401,620	$ 95,284
Late insider report filing fees	44,076	31,600
Due from CSTO (a)	88,572	118,380
National project recoveries	26,400	-
Harmonized sales tax (HST)	347,466	250,157
Employee advances and other	31,270	32,941
	$ 939,404	$ 528,362

(a) The BCSC seconded employees to, and provides technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects cost recoveries due from the CSTO.

7. Employee Leave Liability

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

8. Tangible Capital Assets

Tangible capital assets consists of:

	Information Technology*	Leasehold Improvements	Office Furniture and Equipment	March 31, 2013 Total
COST				
Opening balance	$ 4,019,787	$ 4,608,691	$ 2,400,059	$ 11,028,537
Additions	3,908,968	212,703	46,944	4,168,615
Disposals	174,396	-	10,368	184,764
Write-downs	-	-	-	-
Closing balance	7,754,359	4,821,394	2,436,635	15,012,388
ACCUMULATED AMORTIZATION				
Opening balance	1,912,891	3,719,806	2,159,459	7,792,156
Amortization	797,326	98,679	42,317	938,322
Disposals	174,396	-	10,368	184,764
Write-downs	-	-	-	-
Closing balance	2,535,821	3,818,485	2,191,408	8,545,714
Net book value	$ 5,218,538	$ 1,002,909	$ 245,227	$ 6,466,674

* *$1.4 million of information technology assets are not being amortized because they are under development.*

	Information Technology	Leasehold Improvements	Office Furniture and Equipment	March 31, 2012 Total
COST				
Opening balance	$ 2,491,238	$ 4,115,892	$ 2,521,167	$ 9,128,297
Additions	1,617,072	492,799	61,598	2,171,469
Disposals	88,523	-	182,706	271,229
Write-downs	-	-	-	-
Closing balance	4,019,787	4,608,691	2,400,059	11,028,537
ACCUMULATED AMORTIZATION				
Opening balance	1,454,298	3,660,780	2,295,891	7,410,969
Amortization	547,116	59,026	46,274	652,416
Disposals	88,523	-	182,706	271,229
Write-downs	-	-	-	-
Closing balance	1,912,891	3,719,806	2,159,459	7,792,156
Net book value	$ 2,106,896	$ 888,885	$ 240,600	$ 3,236,381

9. Prepaid Expenses

Prepaid expenses consists of:

	March 31, 2013	March 31, 2012
IIROC registration processing fees	$ 288,512	$ 287,223
Staff training and development	-	29,478
Information technology maintenance contracts	253,133	179,885
	$ 541,645	$ 496,586

10. Accumulated Surplus

We have internally designated components of accumulated surplus, as follows:

	General	Fee Stabilization (a)	Education (b)	Total
BALANCE, MARCH 31, 2012	$ 16,099,409	$ 15,000,000	$ 1,746,430	$ 32,845,839
Additions and appropriations	(2,105,228)	-	998,179	(1,107,049)
Investment income allocation	(15,251)	-	15,251	-
Disbursements	2,211,936	-	(2,211,936)	-
BALANCE, MARCH 31, 2013	$ 16,190,866	$ 15,000,000	$ 547,924	$ 31,738,790

	General	Fee Stabilization (a)	Education (b)	Total
BALANCE, MARCH 31, 2011	$ 14,383,798	$ 15,000,000	$ 2,834,355	$ 32,218,153
Additions and appropriations	282,751	-	344,935	627,686
Investment income allocation	(18,782)	-	18,782	-
Disbursements	1,451,642	-	(1,451,642)	-
BALANCE, MARCH 31, 2012	$ 16,099,409	$ 15,000,000	$ 1,746,430	$ 32,845,839

a) Fee stabilization reserve

We designate amounts from our operating surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

b) Education reserve

We order administrative penalties and disgorgements under the *Securities Act*. We also negotiate settlement amounts. We designate revenue from penalties, settlements, and unclaimed disgorgements to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets. We mix Education reserve funds with our other funds for investment purposes.

11. Enforcement Sanctions

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of $22.2 million (fiscal 2012 - $55.9 million) during the year, of which we did not recognize $21.5 million (fiscal 2012 - $55.7 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions is difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

12. Investment Income

Financial and real returns related to financial assets are as follows:

	For the Year Ended March 31, 2013					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 6,854,013	$ 51,620	$ -	$ 51,620	$ -	0.8%
Pooled Canadian						
Money Market Fund	-	-	-	-	-	-
Short Term Bond Fund	11,078,000	164,359	15,585	179,944	-	1.6%
Canadian Universe Bond Fund	20,001,995	800,508	1,187,730	1,988,238	107,202	10.5%
	$ 37,934,008	$ 1,016,487	$ 1,203,315	$ 2,219,802	$ 107,202	6.1%

	For the Year Ended March 31, 2012					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 5,580,351	$ 68,003	$ -	$ 68,003	$ -	1.2%
Pooled Canadian						
Money Market Fund	2,371,410	30,036	(952)	29,084	-	1.2%
Short Term Bond Fund	8,354,312	261,852	-	261,852	-	3.1%
Canadian Universe Bond Fund	23,063,062	1,185,298	86,043	1,271,341	1,102,045	10.3%
	$ 39,369,135	$ 1,545,189	$ 85,091	$ 1,630,280	$ 1,102,045	6.9%

13. Expenses by Object

Expenses by object are as follows:

	Budget	For the Year Ended March 31, 2013	For the Year Ended March 31, 2012
EXPENSES			
Salaries and benefits	$ 26,710,000	$ 27,022,765	$ 25,913,577
Professional services	3,050,000	2,861,416	3,324,940
Occupancy	2,604,000	2,659,208	2,271,689
Depreciation	1,250,000	938,322	652,416
Information management	919,000	1,179,341	976,945
Education disbursements (note 10)	2,325,000	2,211,936	1,451,642
External communication	372,000	456,382	303,506
Administration	503,000	520,413	478,082
Staff training	556,000	339,995	478,475
Travel	354,000	211,536	271,589
Telecommunications	95,000	124,705	121,320
Regulatory operations	$ 38,738,000	$ 38,526,019	$ 36,244,181

14. Related Party Transactions

We are related through common ownership to all BC provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

15. Post-retirement Employee Benefits

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 56,000 active members and approximately 39,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2011, indicated a $275 million deficit for basic pension benefits. In order to fund the liability, both employee and employer contribution rates increased, effective April 1, 2012. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $2.0 million to expense for employer contributions during the period (fiscal 2012 - $1.9 million).

16. Commitments and Contingencies

a) Office lease

Our lease ends November 30, 2021. Rent is as follows:

December 1, 2011 - November 30, 2013	$ 1,395,000 per year
December 1, 2013 - November 30, 2015	$ 1,455,000 per year
December 1, 2015 - November 30, 2017	$ 1,525,000 per year
December 1, 2017 - November 30, 2019	$ 1,605,000 per year
December 1, 2019 - November 30, 2021	$ 1,690,000 per year

We will pay our share of building operating and maintenance costs.

b) National electronic filing systems and operating agreements

BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, the l'Autorité des marchés financiers (collectively, the Principal Administrators or PAs), and the Investment Industry Regulatory Organization of Canada Inc. (IIROC) contract with CDS Inc. (CDS) to operate the following national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through these systems.

CDS charges user fees to cover budgeted system operating costs. The PAs, and IIROC for NRD, are responsible for any operating cost shortfalls. The PAs, and IIROC for NRD, share an undivided interest in system surpluses to April 1, 2013. We have agreed to use these system surpluses only for the benefit of national filing system users.

The OSC is holding $94.4 million (March 31, 2012 - $80.5 million) in trust, on behalf of the PAs and IIROC. These funds are the systems' accumulated surpluses, including investment income thereon and net of $5.0 million spent since fiscal 2010 to maintain and improve the systems.

17. Subsequent Events

a) National filing system arrangement

Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing system governance under the PAs and transition system management from CDS to CGI during fiscal 2014.

Under the arrangements, each of the four PAs has one vote on national electronic filing system matters. This arrangement meets the Public Sector Accounting Standards definition of a government partnership, and results in the BCSC proportionately consolidating twenty five percent of national filing system assets and operations effective April 2, 2013.

We estimate that this change will increase our consolidated net assets by $23.5 million and will increase consolidated operating results by $3.5 million. These net assets and related operating results related to the national electronic filing systems are restricted to fund CSA systems operations, future system enhancements and fee adjustments and will not be available to fund our operations.

17. Subsequent Events (continued)

b) Lease expansion

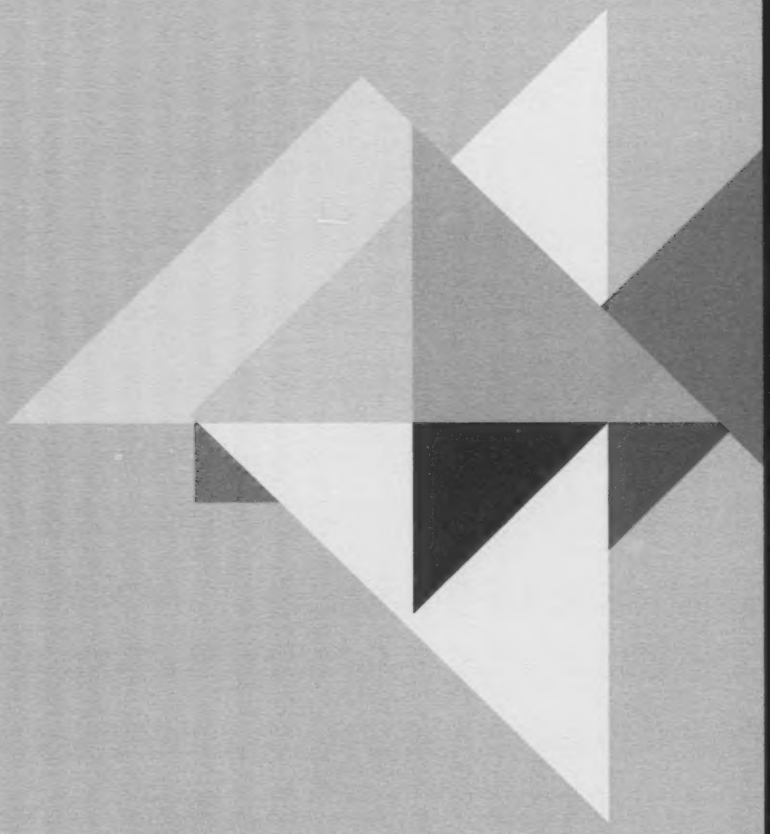
In April, we contracted to increase our leased office space effective June 1, 2013, to accommodate staff growth. The expansion is coterminous with our main lease, and rent over the term will be as follows:

June 1, 2013 – December 31, 2013	$ 127,000
January 1, 2014 – November 30, 2015	$ 190,000 per year
December 1, 2015 – November 30, 2017	$ 200,000 per year
December 1, 2017 – November 30, 2019	$ 210,000 per year
December 1, 2019 – November 30, 2021	$ 220,000 per year

We will pay our share of building operating and maintenance costs.

18. Budgeted Figures

Budgeted figures are for comparison purposes and flow from the BCSC fiscal 2014 Service Plan.



Enforcement Report

Enforcement Report

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.

Effective enforcement requires knowledgeable professionals who can detect and respond to misconduct that affects local and national capital markets.

Protecting Investors and Market Integrity

Our Enforcement division utilizes all of the regulatory tools at its disposal to protect investors from falling victim to fraud or other abusive activity. We aim to detect misconduct early, disrupt and stop the activity, and then pursue it vigorously to deter future harm to investors and the capital markets.

BCSC staff investigate complaints of market misconduct, and the executive director can take early, decisive action by issuing temporary enforcement orders to intervene and stop ongoing misconduct.

After we detect misconduct, there are two different paths for investigations to take.

The first option is for the executive director to bring cases before BCSC panels at an administrative hearing. BCSC panels have broad powers under the *Securities Act* to take action against misconduct, including ordering market bans, administrative penalties, and the disgorgement of ill-gotten gains. BCSC decisions and settlements act as deterrents to those who seek to harm investors and our capital markets.

The second option is for the BCSC's criminal investigation team to investigate and refer cases to Crown Counsel for prosecution. The courts can then impose penalties, including jail terms and fines, which can act as deterrents for those for whom administrative penalties are not a deterrent.

Collaborative Enforcement

We work with securities regulators in other jurisdictions to reciprocate market bans, share information, and conduct investigations. During the year, we received 13 formal requests for assistance from US federal and state authorities, including the US Securities and Exchange Commission and the US Commodity Futures Trading Commission, five from the Hong Kong Securities and Futures Commission, and 12 from other agencies.

We made 19 formal requests for assistance to US federal and state authorities, including the US Securities and Exchange Commission, one to the UK Financial Services Authority, and 40 to other agencies.

With respect to allegations of criminal misconduct, our criminal investigation team conducts the investigations required and prepares reports for Crown Counsel. In British Columbia, the decision about whether or not to lay charges rests solely with Crown Counsel. We also work with other enforcement agencies and financial institutions to raise awareness of investment fraud. Our work aims to encourage early reporting of investment fraud and deter misconduct that can harm investors and our capital markets.

Cross-divisional Initiatives

The Enforcement division works closely with staff in the Corporate Finance division and Capital Markets Regulation division. The Compliance branch in the Corporate Finance division referred 13 cases to the Enforcement division this year. Staff in the Capital Markets Regulation division referred two cases to Enforcement. Of the 15 cases referred to Enforcement in fiscal 2013, eight are still being investigated.

Staff in both Corporate Finance and Capital Markets Regulation can also issue their own production orders and, in the case of Corporate Finance, issue halt trade orders and cease trade orders.

Fiscal year	2011	2012	2013
Production orders - Compliance	122	222	89
Halt trade orders - Compliance	6	3	3
Cease trade orders - Compliance	52	34	38

The number of production orders is down 60% from 2012 and 27% from 2011. The drop from 2012 was expected as the number of production orders in fiscal 2012 was considerably higher than our historical average, primarily due to 95 production orders issued to unregistered sellers and finders. The drop from 2011 is due in part to staff in Corporate Finance finding it increasingly difficult to identify non-compliant companies. Companies on the OTC bulletin board market have been the focus of compliance halt trade orders and cease trade orders over the past few years. It appears that our program has been effective in bringing many of these companies into compliance. We started focusing on companies in the private placement market three years ago. We use production orders to gather information in order to determine the risk factors present with the company. As time goes on, companies that have already received production orders raise more money and file again. In most cases, it is not necessary to send production orders to these companies again as we already have the information. Instead, we focus our efforts on more in-depth reviews of these companies.

In addition to production orders, staff in our Capital Markets Regulation division also use compliance review powers for registered and unregistered sellers and finders as a primary compliance tool. The 66 compliance review orders issued in 2013 allowed these staff to review registered firms' compliance with ongoing requirements for registrants, and unregistered dealers' compliance with the conditions that allow them to sell private placement securities without being registered.

Awareness and education can help disrupt, stop, and prevent investment fraud. The Enforcement division continues to play an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investment fraud courses to police and take part in our province-wide education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight *Investor Watches* and *Investor Alerts* about possible unsuitable investments or fraudulent investment schemes. BCSC staff also communicate through the news media, social media websites, and face-to-face seminars to increase fraud awareness and reporting.

How the BCSC handles enforcement cases

The enforcement process starts with a

- complaint from the public or securities industry participant
- referral from another agency
- referral from BCSC staff

The BCSC's case assessment branch reviews complaints, or referrals, and can then

- refer it to another agency, including a law enforcement unit
- refer it to the Communications & Education division to issue an *Investor Alert*
- refer it to our regulatory investigation team, criminal investigation team, or litigation branch
- refer it to the Capital Markets Regulation division or Corporate Finance division, if it involves complaints against a registrant or public company
- close the file, if there is insufficient evidence to proceed

After investigating a case, the regulatory investigation team can

- close the file with a caution letter
- refer it to the litigation branch
- close the file, if there is insufficient evidence to proceed

After investigating a case, the criminal investigation team can

- refer it to Crown Counsel, if the evidence supports a criminal charge
- refer it to our regulatory investigation team, if the evidence does not support a criminal charge

The litigation branch works with the case assessment branch, the regulatory investigation team, Capital Markets Regulation division, or Corporate Finance division, and can

- intervene using a temporary order, when appropriate
- pursue it through a hearing before a panel of BCSC commissioners
- negotiate a settlement

Enforcement Activity April 1, 2012 – March 31, 2013

We handled 114 new cases last year. Many of these represented multiple violations including:

71 related to unregistered activity
66 related to illegal sales of securities
38 related to fraud
9 related to registrant misconduct
70 related to director and officer misconduct
55 involved misrepresentations
15 related to insider trading
17 involved market manipulation allegations
8 breaches of order
11 disclosure violations
30 involved civil disputes outside our mandate

Enforcement Activity for Last Three Years[1]

Fiscal year	2011	2012	2013
New enforcement cases handled	141	163	114
Production orders – Enforcement	429	305	449
Freeze orders – Enforcement	7	14	6
Assets frozen (at year-end)[2]	$ 8.37 million[3]	$ 15.48 million[3]	$ 21.16 million[3]
Assets returned to investors, provided to Civil Forfeiture Office, to receiver, or to bankruptcy trustee	$ 3.47 million[4]	$ 1.35 million[4]	$ 2.26 million[4]

1. The number of new cases, the amount of assets frozen, and the amount of assets returned to investors or provided to other agencies for investors depend on a variety of external factors, and thus vary significantly from year-to-year.

2. This is an estimated value for assets frozen at year-end. Not all assets were in the form of cash, so the actual value of frozen assets may differ because of market conditions and other valuation factors.

3. This money came from five cases for fiscal 2011, from four cases in fiscal 2012, and from four cases in fiscal 2013.

4. The amounts for fiscal 2011 came from nine cases, for fiscal 2012 from three cases, and for fiscal 2013 from one case.

The BCSC began fiscal 2013 with 17 notices of hearing outstanding. At year-end, there were 24 notices of hearing outstanding.

Here is the hearing-related activity for each of the last three years:

Fiscal year	2011	2012	2013
New notices of hearing	21	13	21[1]
Temporary orders	3	2	6
Liability decisions	3	5	5
Hearing sanction decisions	7	14	11
Settlement agreements	13	9	10

1. The increase from fiscal 2012 to fiscal 2013 was the result of process changes that took two years to implement.

Enforcement Highlights

We post all notices of hearing, decisions, and settlements in the Enforcement section of our website, where they are searchable by name and keyword. The *CSA 2012 Enforcement Report* discusses six BCSC hearing decisions during calendar year 2012. You can link to the report here or obtain it on the BCSC website (News & Publications / Publications / Enforcement).

Investor Alerts and temporary orders

> *We use Investor Alerts and temporary orders to try to disrupt, stop, and prevent illegal investment activities.*

Temporary order – Paul Lester Stiles and Velocity Entertainment Inc.

In May 2012, the BCSC's executive director issued a notice of hearing and temporary order against Paul Lester Stiles. The temporary order banned Stiles from trading in all securities and from engaging in investor relations activities. The notice of hearing alleged that Stiles engaged in illegal distributions and made materially false statements while promoting Velocity Entertainment Inc. as an investment on Craigslist.

In July and August 2011, and again in March 2012, BCSC staff had discovered advertisements in the Financial Services section of Vancouver's Craigslist website that promoted Velocity Entertainment Inc. Stiles was the sole director of Velocity. In correspondence with a BCSC investigator posing as a potential investor, Stiles promoted the investment and sent the investigator an investment agreement claiming, among other things, that Velocity would use the money to produce two feature films. Stiles made a number of false statements in promoting the investment, including that it would provide a "totally secure" rate of return of 100% in six months, and provided instructions to transfer funds to his bank account. Earlier in October 2009 and again in April 2012, BCSC staff had warned Stiles that his capital raising activities were in contravention of securities laws.

In October 2012, a BCSC panel permanently banned Stiles from the province's capital markets and fined him $35,000. The panel characterized Stiles' disregard of BCSC staff warnings as "contempt for our system of securities regulation", and stated that his conduct "shows that he has attempted fraud before and will continue to do so".

Investor Alert – Pegasus Pharmaceuticals Group Inc.

On October 15, 2012, the BCSC issued an *Investor Alert* warning the public about investing in Pegasus Pharmaceuticals Group Inc. and its associated companies.

Pegasus had been offering Pegasus bonds and debentures offering returns as high as 100% per annum. In addition to concerns about the promised returns, the BCSC was also concerned that Pegasus was offering these investments when it had not issued a prospectus or registered with the BCSC.

According to the company's website, Pegasus would use the funds raised for cancer therapy clinics, new drug development, and to upgrade manufacturing facilities.

Investor Alert – Profitable Sunrise

After receiving reports of British Columbia residents wiring money to Profitable Sunrise, the BCSC issued an *Investor Alert* in March 2013, warning the public not to send money to Profitable Sunrise. Profitable Sunrise is an entity that purports to be incorporated and registered in the United Kingdom, and claims to provide short-term bridge loans to companies in the United States. In the *Investor Alert*, the Commission advised the public that Profitable Sunrise was offering its investments without a prospectus and without being registered.

According to its website, Profitable Sunrise offered five different investment plans, with a minimum investment of $10 and a "risk free" return of between 1.6% and 2.7% per business day on a 180 to 240-day term. The BCSC contended that these returns are so high that investors could not earn them through legal means.

A number of states and provinces issued investor alerts and temporary cease and desist orders against Profitable Sunrise and its agents.

Criminal cases

The BCSC implemented a criminal investigation team in 2007. The team's goal is to investigate and recommend *Criminal Code* and *Securities Act* charges against individuals for whom administrative sanctions alone are not considered a deterrent. Since 2007, 24 individuals have been charged.[1]

1. Four of these individuals have been charged with subsequent offences under the Securities Act and Criminal Code.

In the past year, the team referred one case to Crown Counsel, which received charge approval.

Key to the success of the team is the good working relationship with Crown Counsel and law enforcement agencies.

Michael David Chodorowski

In March 2013, Michael David Chodorowski pled guilty to 30 charges under the *Securities Act* and four *Criminal Code* charges. He was sentenced to the maximum jail term of two years in jail under the *Securities Act*, to be served concurrently with the six-year jail sentence he received for the charges under the *Criminal Code*. He was also ordered to pay restitution of over $725,000 in connection with the charges under the *Securities Act*.

In June 2010, the Manitoba Securities Commission had referred Chodorowski to the BCSC. Three months later, the RCMP contacted the BCSC after receiving a complaint about Chodorowki. In October 2012, Chodorowski was charged under the *Securities Act* for operating a large Ponzi scheme. His fake investment operation paid returns to some investors from the money of others and not from any actual profits. He could not be arrested at that time because he had fled the jurisdiction. In March 2012, Chodorowski was arrested at Nanaimo Airport and remained in custody until his plea bargain.

This case demonstrates cooperation between the BCSC and the RCMP and also cooperation with our provincial colleagues, in this case staff at the Manitoba Securities Commission.

Settlements

In a settlement agreement, the person subject to the allegations admits to misconduct and consents to an enforcement order, a financial payment, or another appropriate remedy.

Malkeet Singh Bains and Narvinder Singh Patric Virk

In May 2012, Malkeet Singh Bains and Narvinder Singh Patric Virk each admitted to participating in an alleged market manipulation of Sungro Minerals Inc., a company quoted on the US OTC bulletin board.

Bains admitted that he set Sungro up as a "shell company", recruited his friends as seed shareholders, and instructed them to sell their shares at specified prices on specific dates in June and July 2009. Virk admitted that he became a seed shareholder of Sungro, recruited several of his family members and friends, and sold his shares at specified prices on specific dates at the direction of Bains.

Under his settlement agreement, Bains agreed to pay the BCSC $125,000 and was banned for 25 years from BC's capital markets. In a separate settlement agreement, Virk agreed to pay the BCSC $100,000 and was also banned for the same 25 year period.

Genus Capital Management Inc.

In May 2012, Genus Capital Management Inc. admitted to gross negligence for failing to file exempt distribution reports and for failing to amend its policies and procedures to ensure the company met its regulatory obligations.

BCSC staff repeatedly advised Genus, a registered portfolio manager, that once the BCSC revoked a previously issued exemption, Genus would be expected to file the required exempt distribution reports and pay the associated fees in connection with the distribution of securities of certain funds managed by Genus.

Despite these warnings, when the BCSC revoked the exemption order in 2009, Genus did not file the required exempt distribution report and pay the associated fees for over two years.

During a routine examination in 2011, BCSC staff identified this failure to file. After that, Genus filed the outstanding exempt distribution reports and paid the associated filing fees, totalling over $118,000. Genus subsequently implemented changes to its practices and procedures manual to ensure future compliance with respect to the specific shortfalls identified.

Under the settlement agreement, Genus agreed to pay the BCSC $90,000.

Findings, hearings, and decisions

Following a hearing, if a BCSC panel finds that allegations of misconduct are proven, the commissioners can make enforcement orders, impose financial penalties, or order the disgorgement of ill-gotten funds.

Peter John Flueck, Zafer Erick Sungur, and Brookmount Explorations Inc.

In December 2012, a BCSC panel banned Peter John Flueck from BC's capital markets for eight years and fined him $65,000. In the same decision, the panel banned Zafer Erick Sungur from the province's capital for five years and fined him $45,000. Brookmount Explorations Inc. was permanently cease traded.

In July 2012, the panel found that Brookmount, Flueck, and Sungur made misrepresentations in news releases issued between February 2005 and June 2007. The news releases falsely stated the value of Brookmount's principal mining property by stating that it had mineral reserves when it had none. This was contrary to both geological reports Brookmount had received, and what Brookmount had reported in its filings with the US Securities and Exchange Commission. In doing so, Brookmount violated the national mining rule. This was the first case ever brought before the commission for breach of the national mining rule.

The panel also found that Flueck and Sungur breached a BCSC cease trade order when they sold Brookmount securities in July and August 2007.

Myron Sullivan II and Global Response Group Corp.

A BCSC panel permanently banned Myron Sullivan II (a.k.a. Fred Myron George Sullivan) from the province's capital markets and fined him $700,000 in December 2012. It also ordered him to disgorge the $1.7 million he had obtained from investors. The panel found that he had committed fraud by knowingly making materially false statements to entice investors to invest in a company he controlled and distributing the company's securities illegally. Sullivan was the director, president, and chief executive officer of the company.

Between 2008 and 2011, Sullivan raised approximately $1.74 million from 97 investors by selling, from his personal holdings, shares of Global Response Group Corp., a BC-based company that Sullivan claimed was in possession of oil spill clean-up and fire fighting technology. He told them that GRG would soon go public and be traded at a specified price, and that the company had sold its technology to the Chinese National Petroleum Company. None of this was true.

Dirk Christian Lohrisch

In June 2012, a BCSC panel permanently banned Dirk Christian Lohrisch from BC's capital markets based on a July 2010 decision of IIROC. The BCSC panel relied on the findings of the IIROC hearing panel that Lohrisch submitted a registration form that was misleading about his credentials, submitted a forged transcript, and attempted to obstruct IIROC staff's investigation into his conduct.

The panel found that Lohrisch's conduct was contrary to the public interest and warranted orders broader than those that IIROC could impose. The panel said, "Not only has Lohrisch followed a path of dishonesty, he shows no remorse."

Gibraltar Global Securities Inc.

In last year's Annual Report, we discussed a panel decision finding that Gibraltar Global Securities Inc. carried out trades and provided securities advice on behalf of BC residents without being registered to do so. Gibraltar is a company registered in the Bahamas that provides offshore securities brokerage, investment management, and advisory services.

The panel also found that Gibraltar's refusal to provide BCSC staff with the names, account information, and account statements for all BC residents who have beneficially held accounts with Gibraltar made the company "unsuitable to engage in securities related activities in, or connected with, British Columbia."

In November 2012, the panel permanently banned Gibraltar from BC's capital markets and fined the firm $300,000. The panel also declined to vary a freeze order that the BCSC issued in August 2011, until Gibraltar paid the $300,000 fine to the BCSC.

In January 2013, Gibraltar went out of business in the Bahamas.

Frequently Used Terms

CSA *Canadian Securities Administrators:* the council of securities regulators of Canada's 13 provinces and territories

IIROC *Investment Industry Regulatory Organization of Canada:* the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada

MFDA *Mutual Fund Dealers Association of Canada:* the national self-regulatory organization that regulates the distribution side of the Canadian mutual fund industry

NI *National Instrument:* a document that sets out uniform rules to govern the national securities market, and deals with various regulatory matters (e.g., NI 43-101 National Instrument 43-101 *Standards of Disclosure for Mineral Projects*)

NRD *National Registration Database:* the CSA's national web-based system that permits individuals who are dealers or advisors to file registration forms electronically

OTC *Over-the-counter:* This refers to markets, or to derivatives or other securities not traded on a traditional exchange

SEDAR *System for Electronic Document Analysis and Retrieval:* the CSA's national electronic filing system for disclosure by public companies and mutual funds

SEDI *System for Electronic Disclosure by Insiders:* the CSA's national web-based system that facilitates the filing and public dissemination of "insider reports"

SRO *Self-Regulatory Organization:* an organization recognized by provincial securities regulators as having powers to establish and enforce industry regulations

TSX *Toronto Stock Exchange:* Canada's national senior equity exchange

TSX-V *TSX Venture Exchange:* one of Canada's two national junior equity exchanges

Resources For Investors

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call BCSC Inquiries at 604.899.6854. Outside the greater Vancouver area:
Phone: 1.800.373.6393
Email: *inquiries@bcsc.bc.ca*

The BCSC's InvestRight website *(www.investright.org)* provides investors with the tools to research and assess potential investments and protect themselves from unsuitable or fraudulent investments. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

The BCSC corporate website *(www.bcsc.bc.ca)* presents an overview of the Commission, promotes general understanding of the financial system, and provides industry professionals with the technical and legal information they need to operate within the *Securities Act*. While some investors may find useful content here, others will find the investment information on InvestRight.org more accessible.

For information about public companies and mutual funds, visit the SEDAR website: *www.sedar.com*.

For information about insider trading activity and viewing insider reports online, visit the SEDI website: *www.sedi.ca*.

You can download this annual report from the publications section of the website. The online version of this report contains hyperlinks to BCSC databases, a glossary of terms, and further information pertaining to certain sections of the report.

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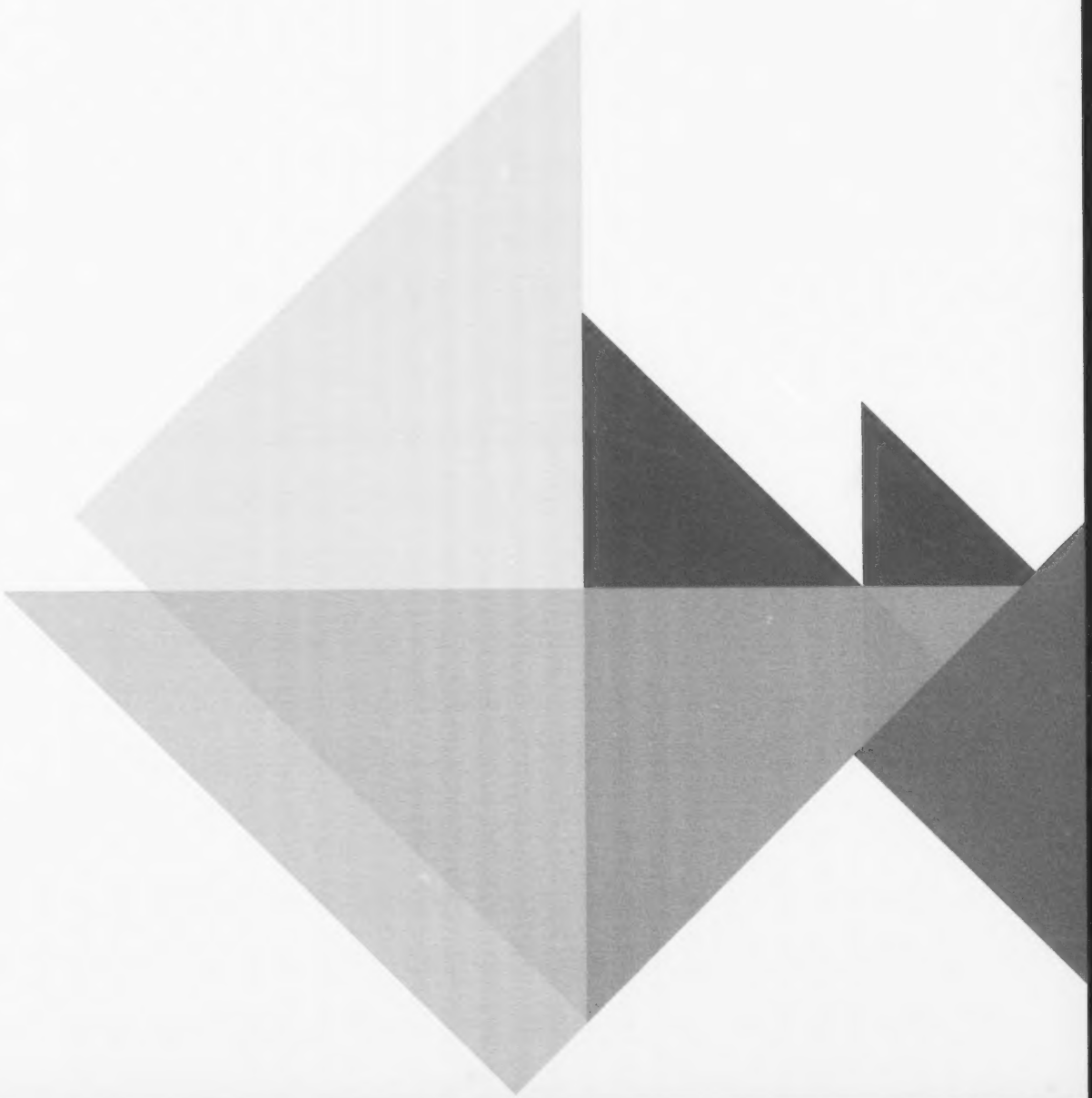

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